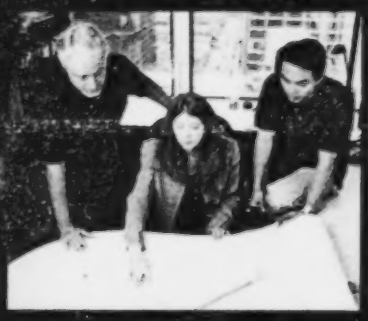
Defence Construction (1951) Limited

2003–2004 ANNUAL REPORT



Canada

Defence Construction Canada (DCC) is a Crown corporation with a mandate to provide contracting, construction contract management and related infrastructure services in support of the defence of Canada. The prime beneficiary of DCC services is the Department of National Defence (DND). Services include:

- Procurement
- Contract Management
- Environmental Services
- Facilities Management
- Technical Support Services
- Project Management Support
- Support to Deployed Operations

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DCC-CDC

Defence Construction Canada
Construction de Défense Canada

www.dcc-cdc.gc.ca

105-02590/

MISSION

The primary mission of Defence Construction Canada (DCC) is to provide high-quality, timely and efficient contracting, contract management and related services to support the Department of National Defence (DND) and the Canadian Forces (CF) in the long-term development and management of facilities infrastructure. Secondly, DCC will support the timely delivery of defined projects or supplies for other government departments and agencies in accordance with its mandate.

VISION

Defence Construction Canada's vision is to be the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

VALUES

Dedication

DCC is dedicated to supporting the infrastructure requirements of the Department of National Defence.

For over half a century, DCC employees have dependably and diligently carried out that mission.

Fairness

DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

Competence

DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

CORPORATE OBJECTIVES

As a Crown corporation, DCC aims to achieve the following corporate objectives related to governance and leadership, service delivery, stakeholder relationships, and corporate services and support:

1. to implement management practices that encourage value-added, innovative service delivery;
2. to ensure the long-term viability of the Corporation through prudent financial management and the provision of efficient and effective services for DND;
3. to manage industry, organizational and contractual relationships in an ethical, fair and professional manner;
4. to maintain the flexibility of structure, policies and systems necessary to accomplish the corporate mission in the face of changing circumstances and needs;
5. to conduct operations in a way that helps protect the natural environment;
6. to maintain human resources management practices that advocate and advance the well-being of employees, as well as their personal and professional development;
7. to adhere to all statutory requirements and public policy regulations and guidelines; and
8. to make decisions and manage risks in the best interests of the Crown.

Defence Construction Canada
Construction de Défense Canada

DCC·CDC

Board of Directors
Conseil d'administration

June 25, 2004

The Honourable Stephen Owen, P.C., M.P.
Minister of Public Works and Government Services
The House of Commons
Ottawa, Canada
K1A 0A6

Dear Minister:

I am pleased to submit to you, on behalf of the Board of Directors, the Annual Report for Defence Construction (1951) Limited, for the fiscal year ended March 31, 2004. This submission is made in order to fulfill the Board's responsibilities respecting governance of the Corporation and in accordance with Part X of the *Financial Administration Act*.

The primary mission of the Corporation is to assist the Department of National Defence in meeting its operational, construction and property management requirements, as well as supporting the timely delivery of defence projects or supplies for other government departments and agencies in accordance with its mandate.

While the Corporation continues to seek new and innovative ways to fulfill this mission, we remain aware of the need to maintain transparency in the conduct of our operations. Although the Corporation is a mature organization, finding ways to continuously improve the flow of information among stakeholders remains a priority. In our role as a service provider, we meet the needs of the client, and as a Crown corporation, we are accountable to Parliament, through you, as Minister responsible for the Corporation.

As required, this report also includes the Corporation's financial statements for the period April 1, 2003, to March 31, 2004. The Auditor General of Canada has audited these financial statements.

Both the Board and senior management of the Corporation remain committed to building on our past successes and look forward to meeting the new challenges that lay ahead.

Respectfully submitted,

John D. McLure
Chair

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Canada

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HIGHLIGHTS 2003–2004

(All dollar amounts are reported in thousands.)

BUSINESS VOLUME

Contract expenditures — $486,848
Expenditures on contracts increased by 32% over 2002–03.

Services revenue — $29,417
Services revenue increased by 20% over the previous fiscal year. Contract management services were at the heart of the growth, but all other service lines, particularly facilities management and project management support saw significant increase in demand.

Number of contractors and consultants used — 1,285
DCC conducts open and fair business practices and fosters competition in the marketplace. In 2002–03, DCC conducted business with 1,273 different firms.

BGen. Steve Irwin, Director General Military Engineering/J3 Engineers, presents DCC President, Ross Nicholls (at left), with the Centennial Champion pin for CME 2003 at a Contracting Services forum in December 2003.

QUALITY

Level of client satisfaction — 96.9%
Throughout the year, DCC conducts meetings with each of its client groups to collect feedback on its overall performance. In keeping with the trend of the past several years, DCC surpassed its target of 95% client satisfaction.

Successful contracting ratio — 97.6%
DCC acknowledges the time and effort that the industry spends preparing and submitting tenders. To reduce the risk of a failed procurement initiative, DCC screens all projects to eliminate situations that might result in a failed tender call. Tender prices exceeding the available budget amount are the most frequent reason for tenders not resulting in a contract award.

Number of environmental incidents — 0
Number of safety incidents — 4
DCC reports environmental and safety incidents as having occurred as a result of policies, procedures, or management actions. None occurred last year. Time lost by DCC employees as a result of workplace accidents totalled two hours in 2003–04.

Value of contract claims at fiscal year-end — $3,429
The number of contractual claims in litigation or adjudication was reduced by 36% to 14 at year-end. The corresponding value of the claims was reduced by 5% to $3,429.

DCC provided the contract management support for the building of the Brigadier D.R. Sargent Armoury in Nanaimo, British Columbia. Pictured at the ribbon cutting are, from left to right: Honourable David Price, MP, Mrs. Sargent and Dawn Tyndall, Acting Mayor for the city of Nanaimo.

In November, 2003, DND announced the construction of the 2nd Batallion Royal Canadian Regiment's (2 RCR) new Garrison Facility at CFB Gagetown. DCC is providing contract management services for this $11 million project. Pictured above from left to right: Robert Guthrie (Architect, AMEC), Darrell Stewart (Contract Coordinator, DCC), Sia Salehi (Project Manager, DCPEP 4-2), LCol Bruce Parks (CO Eng. Branch 3ASG), LCol R. Turcotte (DCPEP 4), Albert Madsen (Site Manager, DCC) and Maj. Peter Burgess (RA-DEV O 3ASG).

EFFICIENCY

Utilization rate — 73.4%
The utilization rate has remained consistent over the past five years. This measure of the number of hours spent on billable service delivery as a proportion of total employee hours can be positively benchmarked against private sector firms in the engineering industry.

Direct Personnel Expense Multiplier (DPEM) — 1.53
This figure represents the factor by which direct payroll costs (including benefits and compensated absences) must be multiplied to recover all operating costs — lower is better. The target range of 1.5 to 1.6 can be compared favourably with the private sector engineering industry, according to PSMJ's 2003 *A/E Financial Performance Summary* (23rd Edition).

HUMAN RESOURCES

Number of employees at fiscal year-end — 348
The size of DCC's staff grew by 24% compared to 2002–03, as a result of increased service demand by clients.

Employee retention rate — 95.7%
Voluntary turnover was very low this year and was well within the target of 90%. This is essential during a period of growth such as that experienced in 2003–04.

Marie-Reine Mereb, Manager–Contract Services, spent one month last year in Bosnia-Herzegovina providing contract management support.

Number of employees recognized for service in CF operational theatres — 6
These employees accepted the challenge of serving Canada overseas by providing support to DND deployed operations. They were formally recognized in 2003–04 and received the NATO Service Medal and the Canadian Peacekeeping Service Medal.

MESSAGE FROM THE CHAIR

As Chair of Defence Construction Canada (DCC), I am very pleased to report on the Corporation's solid performance in 2003–04. During the past year, DCC achieved growth in several areas, including service-line productivity, skills development and corporate financial results. Revenue generated from our service lines increased by 20% over last year. Procurement and contract management services comprised the bulk of DCC's revenue, but the past fiscal year also saw steady growth in specialty areas, such as facilities management, project management support and energy-performance contracting.

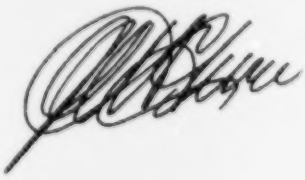
The cumulative successes in corporate development and innovation by DCC's employees were a major contributor to enhancing the Corporation's overall achievements in client service. Each year, DCC recognizes the strengths of its employees with a series of national awards. In 2003-04, the Corporation established the National Award for Service Innovation to highlight the importance of developing new and better ways of doing business.

As a federal Crown corporation, DCC strives on an ongoing basis to demonstrate accountability and maintain the confidence of its stakeholders. Last year's business climate in both the public and the private sector heightened the importance of good governance and ethics in all types of business operations. I am very pleased to report that in this last year, the Corporation successfully continued its culture of good governance and accountability while providing a broad range of services and meeting the objectives of the Corporation. DCC was pleased to receive in June 2003, its third consecutive positive Special Examination, which is conducted every five years, from the Auditor General.

We at DCC continue to monitor closely the impact that national and international events have on our client, the Department of National Defence (DND), and to position ourselves accordingly to serve and support DND to the best of our ability. Last year, our work included support for the Canadian Forces deployed in Bosnia-Herzegovina and Afghanistan. In Canada, DCC continued to assist DND with its environmental and heritage work, including the environmental clean-up project at the Harvey Barracks in Calgary, clean-up and restoration at DEW Line sites in the far North, and the historical restoration work at the Citadel in Quebec City. DCC stands ready and indeed is pleased to provide its continued support to DND for these types of specialized services.

On a personal note, it is with deep sadness that I mention that one of our Board members, Michael Nurse, passed away in January 2004. Mike had a very distinguished career in the Canadian public service and it was an honour to have him on the Board of Directors and to benefit from his substantial contribution to the Corporation. Mike served on the DCC Board from 1996 until last year.

In closing, I would like to welcome Kathleen Ellis, Assistant Deputy Minister, Infrastructure and Environment at DND, who joined the DCC Board in June 2003. Once again, the Board members are proud of the record of service and achievement that has been delivered over the past year by all employees of the Corporation throughout Canada and in Bosnia-Herzegovina and Afghanistan.



John D. McLure
Chair

MESSAGE FROM THE PRESIDENT

DCC experienced its busiest period in some years in 2003–04. Expenditures on contracts increased by 32% over 2002–03 to $486 million, services revenue increased by 20% to $29 million and the number of employees at fiscal year-end increased by 24% to 348. Both operations and corporate services employees responded to this sharp increase in demand in an exceptional manner and were able to respond quickly to pressing client needs. During this period of growth and change, the Corporation maintained a very efficient personnel utilization rate of 73.4% and a very competitive direct personnel expense multiplier of 1.53.

Some significant corporate changes were implemented during the year. The corporate head office relocated within Ottawa in 2004, and the Central region was split into the Ontario and Quebec regions to improve management effectiveness. The Corporation's enterprise resource planning software was updated over the fiscal year to keep up with technological advances, to improve internal business processes and to better position the Corporation for continued growth.

DCC's long tradition of supporting the Canadian Forces overseas continued this year with staff deployed on Operation PALLADIUM in Bosnia-Herzegovina and Operation ATHENA in Afghanistan. I had the opportunity to visit Task Force Kabul in January to get further insight into the needs of the CF and greater understanding of the working conditions of DCC employees abroad. I was proud that DCC was able to play a part in providing excellent facilities under difficult circumstances and to assist with the Civil-Military Cooperation program. Over the last year, six DCC employees received a total of 12 NATO and Canadian medals for service overseas.

DCC has had a close relationship with the Canadian Military Engineers since 1951, and most of the Corporation's services are provided to DND or the CF through the military engineering branch. The branch recognized its centenary in 2003 and I was proud both personally and professionally to help the Engineers celebrate a century of service.

As DCC moves forward in the next year, it will continue to build on its traditional corporate values of dedication, fairness and competence. While almost all of our key initiatives and accomplishments can be related to these values, we also identified a new priority in 2003–04: innovation. A renewed commitment to supporting innovation included launching a fund for employee initiatives and a corporate recognition award. The management team sees the evolution of current innovative thinking into a broadly based culture of innovation as essential to creating value for clients and maximizing the Corporation's contribution to government.

The management and staff look forward to continued growth in service and satisfaction in 2004–05, which promises to present as many opportunities and challenges as last year did.

Ross Nicholls, P.Eng.
President and Chief Executive Officer

CORPORATE PROFILE

GOVERNING LEGISLATION

Defence Construction (1951) Limited was created under a clause of the *Defence Production Act*, and was incorporated by Letters Patent pursuant to the *Companies Act* of 1934. It was granted continuance under the *Canada Business Corporations Act* of 1978. The Corporation, commonly known as Defence Construction Canada (DCC), is accountable to Parliament through the Minister of Public Works and Government Services.

MANDATE

The mandate, as set out in the Letters Patent, directs DCC to provide a wide variety of property-related services in support of the timely delivery of defence projects or supplies. These services are implemented to further the goals of the Department of National Defence (DND), the Canadian Forces and the Government of Canada related to national security and the defence of Canada's interests. The Minister reviewed this mandate and renewed it without change in 2001. In May 2001, a new Memorandum of Understanding (MOU) between DND and DCC was signed to update the terms of the working relationship.

Historically, DCC's business has focused on services related to construction, however over the past ten years, other value-added activities such as project management support, environmental services and operational support services have become a large percentage of total service offerings. The MOU with DND acknowledges DCC's increased flexibility in providing unique services outside the traditional range of contracting, contract management, and project management support.

HISTORY

DCC was created in 1951 to respond to the Government of Canada's need for increased national defence infrastructure. Since that time, DCC has played a major role in projects that have helped shape Canadian history: the construction of the Distant Early Warning (DEW) line across the Arctic in response to Cold War threats; the rapid expansion of military bases across Canada; and the development of military infrastructure in France and Germany, as part of Canada's commitment to the North Atlantic Treaty Organisation (NATO).

Based on DCC's expertise in delivering defence projects, other public organizations have asked the Corporation to help manage construction programs, such as the construction of the Trans-Canada Pipeline and the 1967 World Exposition (Expo 67). DCC has also supported Canada's strategic defence policy objectives by helping carry out international aid efforts, such as the construction of hydroelectric developments in South Asia and schools in the West Indies.

More recently, DCC has been closely involved in DND's programs to rationalize, consolidate and relocate operating units and to decommission redundant facilities. In addition, the Corporation has responded to increases in demand for other infrastructure-related services by developing and offering expertise in a number of disciplines, including environmental and facilities management. In 2000, DCC began to provide contracting and project management services to the Canadian Forces deployed operations. Since that time, the Corporation has provided on-site personnel support both in Bosnia-Herzegovina and in Kabul, Afghanistan.

POLICY FUNCTIONS

DCC plays an important role in the implementation of government policy in areas relating directly to the Government of Canada's contracting requirements. For example, in its business operations, DCC provides broad access to business opportunities and encourages competition. This is demonstrated by the Corporation's use of MERX, Canada's official public sector electronic tendering service. With 99% of all contracts being publicly tendered, as opposed to being sole sourced, DCC contributes to a level playing field for Canadian businesses. Knowing that protecting the interests of Canadians remains paramount, DCC demonstrates fiscal responsibility in the award and management of publicly funded contracts. The process stipulates that contracts are to be awarded to the lowest compliant bidder. DCC remains fully compliant with national and international trade agreements and has taken these into account in its procurement processes, specifically the process for awarding contracts subject to the North American Free Trade Agreement (NAFTA), and the Intra-provincial Agreement on Trade.

DCC supports federal policy objectives in regard to the *Official Languages Act* and strives to offer bilingual services in all office locations where required, and receives few complaints under the *Official Languages Act*. When received they are resolved quickly.

Transparency of operations is integral to DCC's business strategy, and the Corporation complies with the letter and the spirit of both the *Access to Information Act* and the *Privacy Act*. In fiscal 2003–04, DCC processed 14 access to information requests from the general public and 13 consultation requests from other federal departments. Most of these requests came from parties who wanted to see documents related to contract awards.

DCC complies with all legislation and regulations related to protecting the environment and Canadian heritage, such as Treasury Board's Heritage Building Policy and the *Canadian Environmental Protection Act*. Recent projects involving such considerations included the DEW Line Clean-up, historical restoration work at the Citadel in Quebec City and archaeological work at the Royal Military College in Kingston, Ontario.

The Citadel in Quebec City is undergoing a $20 million wall restoration. This work is done with the full cooperation and assistance of Parks Canada and the Federal Heritage Buildings Review Office (FHBRO).

RESTORING THE CITADEL IN QUEBEC CITY

The Citadel in Quebec City is undergoing a $20-million restoration that involves dismantling and rebuilding the wall masonry, excavating part of the walls and installing a drainage system, and then returning everything to its original condition.

Work at a heritage site brings additional challenges. For example, artefacts often come to light during construction. While restoring walls at the Citadel, workers have found a cistern, old fortification walls and old building walls. Work must stop and these items must be preserved before work can resume.

Restorative work demands the use of original materials that can be hard to find. The Citadel was built of sandstone in 1820. Since the original sandstone quarry near the Citadel has permanently closed, DCC had to locate a new supply. It found an abandoned quarry in Sainte-Félicité de Matane, got the permits and permissions needed to re-open it, and took the steps required to meet government environmental standards. This sandstone replaced siding stones on the wall. Over the last two centuries, limestone and granite have also been used to patch the Citadel's walls, and DCC found other quarries to supply these materials.

DND is committed to ensuring that work on historically important sites has positive impacts and to protecting environmental and heritage sites throughout all project phases. DCC helps the Department meet these commitments. For this unique project, the Corporation provided support for consultation, procurement, and project management. Work at the Citadel is being done with the full cooperation and assistance of Parks Canada and the Federal Heritage Buildings Review Office.

DCC'S PRIMARY CLIENT — THE DEPARTMENT OF NATIONAL DEFENCE

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group (IE) of National Defence Headquarters (NDHQ) is the principal point of contact for the centrally managed capital construction program and environmental programs. Since the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their own facilities, DCC also has significant dealings within their organizations, primarily at the base/wing/station level. Finally, DCC also contracts for and delivers consulting, construction and environmental services on behalf of a number of smaller organizations within DND, including the Canadian Forces Personnel Support Agency (CFPSA), the Canadian Forces Housing Agency (CFHA), Defence Research and Development Canada (DRDC), the North Warning System Office (NWSO), the national level joint engineering operations staff (J3 Engineer) and NATO Forces with establishments in Canada. As other government departments and agencies assume roles in Canada's changing defence environment, DCC will respond to requests for support within the scope of its mandate.

Construction of the Sir Charles Bagot control tower was completed in early 2004 at CFB Bagotville. From left to right: Bruno Champeval (Area Engineer, DCC), Col. André Viens, Karen Ellis (ADM(IE)), Major General Bastien, Sandra Tremblay (Site Manager, DCC), Vincent Bégin (Project Manager, Pomerleau) and Maryse Blackburn (Contract Coordinator, DCC).

As part of the general maintenance work done at Bushell Park, Saskatchewan, DCC manages work orders with standing offer contractors. Above, a contractor is building a monument dedicated to the fallen airforce heroes of 15 Wing Moose Jaw.

CONTRACTORS AND CONSULTANTS

Although DCC creates value for the citizens of Canada, the Corporation does not serve the general public directly. Instead, private sector consultants and contractors constitute the specialized "public" that interacts with DCC. For that reason, it is important for everyone at DCC to be aware of what is happening in the industry.

DCC employees interact with contractors on job sites every day. However, there are also frequent, more formal, exchanges with the Canadian Construction Association (CCA) and its provincial and trade counterparts. These interactions help keep DCC abreast of developments in the industry and bring a useful measure of realism to interactions between DCC and its contractors. DCC keeps in touch with the insurance industry to learn of trends in risk management, and with the surety industry for developments in contract security. Representatives of DCC continue to sit on committees and maintain relationships with such groups as the Association of Consulting Engineers of Canada (ACEC), the Royal Architectural Institute of Canada (RAIC), the Canadian Public Procurement Council (CPPC), and the Canadian Design-Build Institute (CDBI). Keeping current with industry standards is critical to DCC's ability

Association of Consulting Engineers of Canada
Association des ingénieurs-conseils du Canada

to deliver service. Consequently, DCC encourages its employees to develop their professional skills. The Corporation helps employees maintain industry certifications and designations relevant to their work, such as the CCA Gold Seal and the Project Management Institute's PMP certification.

CANADIAN CONSTRUCTION SECTOR

The construction industry is a major component of the Canadian economy. According to the Construction Sector Council, this industry employed 931,000 Canadians in 2003, growing by 4.3% from the previous year. Construction represents 12% of Canada's annual gross domestic product, exceeding $120 billion in 2003. In evaluating this very considerable impact on the Canadian economy and the role that DCC plays in that contribution, it is important to understand the structure of this sector. There are more than 20,000 general contractors and 108,000 trade contractors in Canada, most of which are small firms. Because these firms are the backbone of the industry, DCC needs to understand the challenges and the very real, ongoing business threats these entrepreneurs face. To help contractors do their jobs, DCC works to maintain a level playing field, simplify bidding procedures, stimulate interest and encourage competition for all of its contracts. At the same time, DCC realizes that contractors need to maintain cash flow, so it is adept at negotiating fairly when changes must be made to projects. This understanding of contractors, coupled with DCC's historical relationship with its client, enables the Corporation to work successfully with both parties. When differences arise, it can mediate fairly and reasonably.

KEY SUCCESS FACTORS

Five characteristics of DCC's services allow the Corporation to consistently deliver quality service to DND operations. These factors have a direct impact on the viability of the Corporation.

Focus — For more than 50 years, DCC has had a single focus on a major client and, consequently, has developed an understanding of the client's needs and preferred approaches. This unique characteristic makes DCC unlike any other organization in either the private sector or the public sector.

Service — Standing midway between the public and private sectors, DCC knows how the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

Delivery — DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

Flexibility — As a Crown corporation, DCC can manage its staff and administer projects with efficiency and flexibility equal to that of the private sector.

Value — DCC seeks cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

CORPORATE FUNDING AND EQUITY

DCC operates under a service billing system and delivers services to DND on a full cost-recovery basis. The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The Minister of Public Works and Government Services holds the majority (25), with each member of the Board of Directors holding one qualifying share.

Banker — The Royal Bank of Canada

Auditor — The Auditor General of Canada

SERVICE LINES

DCC serves as an intermediary between its government client, on the one side, and consultants and contractors on the other. For over 50 years, DCC has delivered an extensive range of infrastructure projects to the Department of National Defence: everything from runways and civil works to buildings, from target systems to radar stations, and from environmental remediation to unexploded ordnance disposal. The following is a list of the Corporation's principal services.

Procurement — Procurement for construction, maintenance, goods and services. Procurement and solicitation planning, preparation of tender documents, solicitation, evaluation and award, market assessment, and bidability reviews.

Contract Management — Contract administration including contract payments, change management, cost control, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment, and warranty management.

Environmental Services — Assessments and audits, technical support to environmental remediation, unexploded ordnance clean-up and decommissioning, waste management programs, environmental management systems, and hazardous materials (HAZMAT) survey coordination.

Facilities Management — Building condition reports, life safety system management, maintenance contract management, utilities management, and re-capitalization planning.

Technical Support Services — Range inspection, facility inspection, commissioning, constructability reviews, design coordination, shop drawing reviews, building energy performance services, and GIS services.

Project Management Support — Scope, cost and schedule control, program planning, and preparation of scope documents such as terms of reference and statement of requirement.

Support to Deployed Operations — Procurement, quality assurance, and contract administration.

ENVIRONMENTAL AND SAFETY RESPONSIBILITIES

The DCC Board of Directors and management group are committed to the principles of sound environmental stewardship, to the practice of due diligence and, as a public institution, to meeting the expectations of Canadians.

DCC's Environmental Management Framework, established in fiscal 2000–01, outlines the strategic direction and long-term objectives of the environmental aspects of DCC's activities. The Corporation finished implementing this framework in 2003–04, integrating environmental procedures into day-to-day operational and administrative processes. In 2004–05, DCC expects to implement management programs designed to meet the Corporation's environmental objectives and to set targets for the next several years.

The Corporation's environmental, safety and health committee will continue to oversee the implementation of this framework, which will be reviewed in 2005–06. This group normally meets four times a year to review current environmental issues and to generate ideas to help DCC fulfill its environmental management responsibilities. In addition, all regional and divisional business plans now identify specific environmental initiatives designed to meet the framework's goals at the local level. A new intranet site gives employees access to a significant database of environmental information. It also allows staff to report environmental incidents online, quickly alerting senior management about potential environmental issues.

Environmental incidents are defined by DCC as follows:

> *Any specific or recurring event(s) that lead to an undesired potential or actual impact on the biophysical environment, the atmosphere, or human health*

Employees maintain an awareness of health and safety issues and remain highly committed to maintaining DCC's excellent record as a safe workplace. Scott Munn, Deputy Project Manager, DEW Line Clean-Up, is the fire warden as well as the health and safety representative of his section, in the Ottawa head office.

or safety. Such incidents can arise from DCC or contractors' activities in offices or work sites or through third-party activities that affect these sites. Incidents include any legal or regulatory non-compliance, regardless of a physical incident having taken place.

DCC reports any such incidents deemed to have occurred as a result of policies, procedures or management actions. It reviewed two incidents reported in 2002–03 and determined they were not caused by DCC policies, procedures, or management actions. There were no environmental incidents to report in 2003–04.

MAINTAINING A SAFE WORK ENVIRONMENT

The management of employee occupational health and safety remains a key concern of the Board, Senior Management, and the Environmental, Safety and Health Committee. DCC continues to invest in safety-related communications and training activities.

Employees have developed an increasing awareness of health and safety issues and the Committee and the National Safety Coordinator remain highly committed to maintaining DCC's excellent record as a safe workplace. For reporting purposes, the Corporation tracks incidents that result in lost work time.

In 2003–04, four incidents involving DCC employees were reported. One of the incidents, which involved two hours of lost work time, occurred at a site office. These two hours represent a slim fraction of total employee work hours at the Corporation. Three other incidents were reported at site offices; however, no lost work time resulted from these events. The number of lost hours has decreased from 2002–03, when DCC lost 70.5 hours of work time due to four incidents: one at head office in Ottawa and three at site offices.

ACCOUNTABILITY

Every five years, the Auditor General (AG) conducts a special examination of Crown corporations. For the third consecutive time, the AG has found no significant deficiencies in management and governance practices at DCC. As well as reviewing the management and governance practices of Crown corporations, these investigations examine areas of special interest or of high risk to the Corporation or to the Government of Canada.

Two other audits in 2003–04 produced good news for DCC. The AG provided a clean audit opinion for its year-end financial audit. In addition, an internal audit systematically reviewed all of DCC's systems and operations. In particular, it examined DCC's contracting practices, an area of core competence for the Corporation since it was founded in 1951. The independent organization that conducted the internal audit found no serious deficiencies and praised the culture and ethics of those involved in contracting activities.

In addition to these mandatory audits, the DCC management framework requires a series of smaller compliance reviews, generally undertaken by DCC staff. These reviews focus on contracting, site management, safety, and financial management — all to ensure quality service for DND and value for the Government of Canada.

OPERATING ENVIRONMENT 2003–2004

DCC'S PRIMARY CLIENT

Activities in 2003–04 surrounding environmental stewardship, administration, and deployed operations at the Department of National Defence (DND) may affect DCC's business over the long term. In April 2003, the Auditor General issued the report *National Defence: Environmental Stewardship of Military Training and Test Areas*. DCC may be able to assist DND in responding to the recommendations to mitigate environmental damage in training areas and to ensure this land remains sustainable.

In August 2003, the Minister of National Defence received the report *Achieving Administrative Efficiency*, issued by a ministerial advisory committee. DCC may be able to provide increased support, at the client's request, that would be cost effective and practical for DND.

Canada's defence and security environment continued to evolve rapidly over the last year, during which Canada committed 1,900 Canadian Forces (CF) troops to the International Security Assistance Force in Kabul, Afghanistan. To help rebuild Afghan communities, DCC provided support to the Civil Military Cooperation program (CIMIC). For the past several years, DCC has provided support personnel for the CF's Operation PALLADIUM in Bosnia-Herzegovina. In December 2003, NATO confirmed that the security situation in Bosnia-Herzegovina had improved so much that the strength of the forces would be reduced. Consequently, Canada reduced its commitment. In the coming year, DCC expects that the size of its support staff for this operation will also be reduced.

DCC MANDATE

In the past 10 years, DCC has expanded its service lines beyond the traditional areas of contracting and construction contract management. The new specialty services, which include environmental, facilities management and technical support services, now comprise a large percentage of DCC's business. In 2003–04, 28% of services revenue came from these service lines. Given the range of DCC's in-house expertise and experience, and the parameters of DCC's full mandate, DND can take advantage of a wide range of capabilities at DCC.

As other government departments and agencies assume roles in Canada's changing defence environment, DCC will respond to requests for support within the limitations of its mandate. Leveraging DCC's experience in providing support for Operation ATHENA in Afghanistan last year, DCC was asked to provide contracting and contract management services to Foreign Affairs Canada for the renovation of facilities for a temporary embassy in Kabul, Afghanistan. Foreign Affairs Canada's consular services play an integral role in supporting Canada's defence interests in that region. The Corporation continues to stand ready to respond to the government's national defence requirements within the scope of DCC's mandate.

THE INDUSTRY

Last year's business plan predicted that activity both in the residential and the commercial construction sectors in Canada may slow down. However, labour conditions and the overall economic environment of the construction sector did not have a negative impact on DCC's business.

A factor that did have a significant impact on DCC's work was the extraordinary increase in the price of rebar and structural steel over the last three to six months of 2003–04. According to the Canadian Steel Producers Association, there were three main reasons for this rapid price increase: increased demand for steel by China for its growing infrastructure; increased costs for feedstocks, such as scrap, coke and iron ore; and an increase in energy prices. Last year, there were some unforeseen project delays due to delays in the delivery of steel materials because of high demand. DCC is aware of these volatile market conditions and makes every effort to avoid unnecessary delays when awarding contracts, so that work can begin as soon as possible.

THE WORKFORCE

Within five years, a significant number of senior DCC employees will retire, taking their accumulated corporate memory with them. Employees aged 45 or older comprise 44% of DCC's employee population. Succession planning is underway within all areas where this is forecast to be a critical factor over the next five to ten years.

Some remote locations in the Atlantic and Western regions pose a consistent staffing challenge. High demand for skilled technical personnel who can work in both official languages in some areas of the country poses another consistent recruiting hurdle. As DCC's specialty service lines expand, there is a new demand for personnel with novel skill sets, such as business management knowledge combined with technical expertise. Since the specialty services that DCC offers are relatively new fields, such as the environmental service line, it is difficult to find people with these unique combinations of skills.

INNOVATION

DCC has a strong tradition of taking a leading role in the development of new and unique practices. Many DCC service lines are the result of past innovative thinking — a tradition seen as a key to the future success of the Corporation. Last year, DCC established an innovation fund to encourage an innovative culture throughout all levels of the Corporation. All employees, or groups of employees were invited to apply for funding to support a new and useful idea. Funding was allocated to cover implementation costs such as overhead salaries, equipment purchases, and professional fees. Creativity, originality and practicality were encouraged.

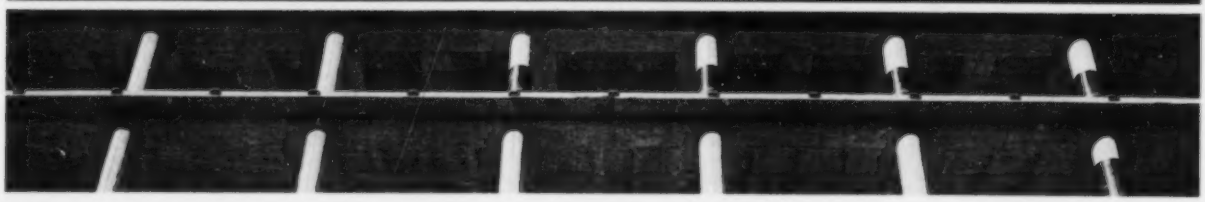
Proposals were received from across the regions ranging from ideas for new types of service lines and evolving current service line practices to implementing the use of technology to streamline operations, improve service and save money. A total of $83,000 was allocated to fund these proposals out of an original budget of $125,000.

In the latter category, two proposals were submitted that involved the use of collaborative software. In one case, the Contract Services Division proposed the implementation of a software package that could facilitate information transfer and minimize data re-entry. An evaluation of the different types of software on the market was conducted to find the optimum system for this application that could bridge the Corporation's existing technology platforms. The study was completed and the recommendations are currently being evaluated.

A second proposal was received from the Ontario region to improve the implementation of a complex facility-upgrade project in Toronto. With the collaboration of the DND Project Manager, Bird Construction Company Ltd. and AMEC Engineering, a project management software system was hosted on a dedicated project server to manage and facilitate the exchange and storage of project and contract documentation between all the project stakeholders. The ongoing pilot project is yielding some valuable lessons.

Management has renewed its commitment to the support of innovative ideas in the upcoming year by allocating a further $60,000 to the fund.

SERVICE DELIVERY



Since DCC's mission is to deliver high quality, timely and efficient defence infrastructure services, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. Over half a century of work experience with DND has given the Corporation in-depth knowledge of client requirements for defence- and security-related projects. Even with this niche, continuous improvement is always a priority. DCC regularly takes steps to maintain and develop new modes of service delivery.

Contract Services

For over 50 years, DCC's Contract Services Division (CSD) has linked DND with the contractors and suppliers who can fill Canada's defence infrastructure needs. CSD provides these procurement services across Canada and overseas. It understands DND's demanding operational requirements, the rigour of the federal procurement policy and the unique practices of the construction industry.

Every year, approximately 1,500 contracts are issued for professional services, construction, goods, and other infrastructure-related work. CSD's innovative, responsive and efficient procurement processes have been designed to meet client and industry needs. The DCC ISO 9001 certified quality program ensures consistent delivery, enhanced client input and continual improvement. The following processes are a few of the options.

Quick response tenders — DCC establishes a source list of contractors at each base to respond to the specific construction needs of each location. Depending on the requirement and value, these contracts can be in place within 14 calendar days.

Tender boards — Minor construction projects that are equally time sensitive but more complex in nature are candidates for this process. The target time from notice to award for this process is 25 calendar days.

Design-build — This contract option is used to deliver a large portion of the major capital construction program. While the time required to contract under this option is longer than the time needed for other standard processes, the overall project delivery time has been reduced from the traditional design-bid-build method.

DCC has many other infrastructure-related tender processes, each designed to meet a particular requirement. The following processes are some of the options.

Best value contracts — Price and technical requirements determine the award, and it is not based solely on the lowest bid.

Construction management — Contractor expertise is engaged to help manage multiple construction activities.

Energy performance contracts — Firms are contracted to make infrastructure improvements on DND facilities with payment made from the resulting energy savings.

Construction of the new Naval Officer Training Center (NOTC) at CFB Esquimalt, British Columbia is currently underway with completion scheduled for the fall 2004. DCC is providing contract management and quality assurance services.

Standing offers — Firms are pre-selected to provide specific services, as and when required.

Facility maintenance contracts — Expertise is contracted for long-term operation and maintenance of DND facilities.

TIMELINESS OF PROCUREMENT

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since timeliness of procurement is important both to DND and to the industry, this activity is reported as a key performance indicator.

DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency. The target represents a reasonable length of time from the point at which the Notice of Proposed Procurement (NPP) is received from the client to the time when the contract could be awarded to the contractor or consultant. Factors that affect performance against the targets include amendments, funding, bid anomalies, and changes to the scope and value of the work during the procurement process. Additional time that may be required as a result of these is not included in the targets.

The following two tables demonstrate DCC progress at the end of 2003–04 in terms of timeliness of construction and consultant procurement. These numbers are shown as a percentage of how many times the target was met. Based on historical trends, and the multitude of project specific variables, it is reasonable to expect that DCC can achieve the targets 50% of the time. To provide a context for these results, the median number of days from NPP to award of the contracts is provided in the tables. Of note is the fact that design-build contracts have suffered significant delays for specific project reasons beyond the control of the Corporation

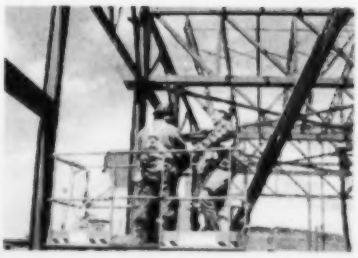
At the end of 2003–04, DCC implemented an upgraded Enterprise Resource Planning (ERP) system. As a key module of this system, contracting was revamped to add new key data fields, assist with data capture and enhance reporting on key performance indicators. This enhanced reporting function will allow DCC to better monitor its procurement performance and help develop improvements.

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 97.6% of DCC tender calls resulted in the award of a contract. The most frequent reason that tenders do not result in contracts is that the price exceeds approved budget amounts. To date, DCC is meeting the industry expectations for a reasonable turnaround time to award a contract after a tender has closed.

CONSTRUCTION PROCUREMENT

Table 1

	RESULTS, FISCAL 2002–2003			RESULTS, FISCAL 2003–200		
Indicator	**Target**	**Actual median number of days to award**	**Number of contracts**	**Target**	**Actual median number of days to award**	**Number of contracts**
Regular tender call	35 days	40 days	96	35 days	41 days	137
Tender boards	25 days	26 days	351	25 days	25 days	467
Quick response	14 days	14 days	290	14 days	14 days	310
Design-build	90 days	130 days	8	120 days*	144 days	11



CONSULTANT PROCUREMENT

Table 2

Indicator	RESULTS, FISCAL 2002–2003			RESULTS, FISCAL 2003–2004		
	Target	Actual median number of days to award	Number of contracts	Target	Actual median number of days to award	Number of contracts
Select	25 days	29 days	194	25 days	27 days	213
1-step proposal	50 days	55 days	48	60 days*	57 days	76
2-step proposal	90 days	120 days	19	120 days*	124 days	20

* Halfway through 2003–04, DCC extended each of these targets to reflect a realistic time for implementation. Previously, the targets for design-build, 1-step proposal, and 2-step proposal were 90, 50 and 80 days, respectively. Previously, in the case of design-build, contracts were awarded based only on technical merit and price. However, the scope of some design-build projects warranted increased study and review between DCC and DND, and consequently, in some cases, these contracts were awarded on a best-value basis. With the best-value process, overall quality and cost-effectiveness are the critical factors. The target numbers were chosen based on historical trends of time to award. DCC is presently reviewing the target for design-build projects. The new target is expected to remain aggressive yet more realistic for these typically larger and more complex projects.

GETTING THE JOB DONE

Building new quarters for an entire battalion in just 16 months is an enormous task. But DCC and DND have brought their combined expertise to bear on the challenge and are on track to finish the job on time.

The project involves constructing three buildings in Shilo, Manitoba — a combined main building and training facility, and two structures for vehicles — for the 2nd Battalion of the Princess Patricia's Canadian Light Infantry (2PPCLI). The battalion is scheduled to move into these new $40-million quarters by August 2004.

DND and DCC put the job on a fast track, so that the foundation and structural work could begin while the architectural plans were still being finalized. This is a common strategy in design-build projects, but the schedule at Shilo was particularly tight.

Traditionally, DCC lays out the specifications of a job and awards the contract to the bidder with the lowest price. That bidder usually proposes a basic, efficient project. However, DND wanted to see what interesting elements bidders could incorporate into the buildings to add value. So DCC used an innovative process called quality-based tendering to assess bids. In this process, other factors are considered in the award of the contract.

DCC evaluated the proposals in two stages. First, it checked bids to see that they complied with the performance documents. Then it evaluated the bids on the basis of both quality and price. DCC awarded the job in April 2003 to a bidder whose innovative thinking made it possible to do the job fast, well, and cost effectively.

Dozens of workers have descended on the tiny town of Shilo to get the project finished on schedule. As a result, one of Canada's most storied battalions will have a new home worthy of its heritage when it is needed.

Operations

The Operations Division delivers a broad range of services to construct and maintain DND facilities, including control towers and hangars, dockyards and armoured vehicle maintenance facilities, community centres, housing, barracks, clinics, water and sewer systems, communications systems, and roads and grounds. Other services include firing range inspections, facilities management, property management support, facilities condition reporting, building systems troubleshooting, rapid response to urgent security needs, program management, commissioning and training.

Throughout 2003–04, DCC provided support to DND on major construction projects across the country and on several important heritage and environmental sites. It also supported CF operations deployed abroad.

In the Atlantic region, DCC began building the Chiefs and Petty Officers and Officers Facility at CFB Halifax — a $34-million project with an expected completion date of early 2005. In southwestern Ontario, DCC provided facilities management services for DND buildings, and this service line grew steadily in 2003–04.

As part of all infrastructure projects, DND takes measures to protect Canadian heritage sites and the environment and DCC is pleased to be able to support this commitment. In 2003–04, masonry restoration work was ongoing at the Citadel in Quebec City and at Fort Frontenac in Kingston, Ontario. Construction of a new dormitory at Kingston's Royal Military College was halted due to discoveries indicating the site's significant historical importance. The nature of all these projects demanded that DCC undertake archaeological work. In addition, work at Harvey Barracks at the former CFB Calgary is nearing completion after 10 years; it is expected to end in 2004. DCC provided contract management services for this significant environmental clean-up project.

Other major projects included construction of the Colwood refuelling jetty at CFB Esquimalt and the new home of the 2nd Battalion of Princess Patricia's Canadian Light Infantry (2 PPCLI) at CFB Shilo — to accommodate 2 PPCLI's relocation from Winnipeg.

At the end of the year, DCC had three employees stationed in Kabul, Afghanistan, providing contract management support services to the CF. In December 2003, NATO confirmed that the security situation in Bosnia-Herzegovina had improved to the point that the strength of the forces would be reduced. Consequently, Canada reduced its commitment and in the coming year, DCC expects to reduce the number of support employees it provides for this operation.

Construction of the Chiefs and Petty Officers and Officers Facility commenced last year at CFB Halifax in Stadacona. DCC is providing procurement and contract management services.

The Stone Frigate is one of the oldest buildings on the campus of the Royal Military College of Canada in Kingston, Ontario. Officer Cadet Chris Power, works in his newly renovated room.

CONTRACT MANAGEMENT SERVICES

One of DCC's core competencies is contract management. The Corporation provides many services to support the design, construction, renovation and maintenance of a wide variety of facilities for DND's infrastructure and environment program. Key contract management services include the following:

- contract administration;
- quality assurance;
- regular client reporting;
- coordination of expert services;
- monitoring of construction schedules;

- change management;
- certification of progress payments;
- certification of contract completion;
- document control;
- commissioning services;
- dispute resolution;
- monitoring of deficiencies and warranties; and
- resolution of contractor performance issues.

ENVIRONMENTAL SERVICES

Since the early 1990s, DCC's core staff of environmental specialists has helped DND implement its environmental initiatives — in particular its sustainable development strategy. The Corporation helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk. Key environmental services include the following:

- environmental impact and site assessments;
- environmental site remediation;
- environmental support for project and program management;
- sustainable development strategy support services;
- policy, compliance and advisory services;
- site decommissioning services;
- facility deconstruction and demolition;
- firing range decommissioning;
- waste management auditing and planning;
- waste reduction planning;
- landfill inventories and investigations;
- hazardous waste management;
- underground storage tank removals;
- training and education;
- ISO 14000 environmental management systems;
- environmental GIS applications;
- environmental support for property transactions and decommissioning;
- environmental monitoring and compliance auditing;
- designated substances inventories;
- environmental disclosure reporting; and
- environmental contracting and contract management.

As the location of a main British naval dockyard during the War of 1812, the Royal Military College (RMC) is rich in archaeological potential. DCC is helping protect this historically important site.

FACILITIES MANAGEMENT SERVICES

DCC contracts for and manages the delivery of facilities management services for DND, ensuring smooth operations and that DND buildings are efficiently and cost-effectively maintained. The Corporation's experience covers all areas related to facilities management, including mechanical, electrical, structural, environmental and building maintenance services. Key facilities management services include the following:

- turnkey support;
- renewal services;
- emergency response planning;
- environmental management reporting;
- design and construction of maintenance projects;
- energy management;
- fire safety management;
- building condition reporting; and
- project budget planning for re-capitalization projects.

TECHNICAL SUPPORT SERVICES

DCC can provide its client with a "one-stop shop" because its in-house technical support complements its procurement, construction, and contract management capabilities. Integration of service lines is a conscious business strategy of the Corporation.

Two of DCC's technical staff inspect the masonry at the Citadel in Quebec City.

in order to provide the most cost-effective service possible. Key technical support services include the following:

- energy performance contracting;
- preventative maintenance inspections, troubleshooting and analysis;
- commissioning;
- environmental technical support;
- facility condition reporting;
- quality surveys; and
- materials testing.

PROJECT MANAGEMENT SUPPORT

DCC provides a range of fully integrated project management services to complement DND capability and resources. These vary from identifying and analyzing problems to the planning, design and construction phases of a project. The Corporation recognizes the importance of meeting established standards. Its project managers are expected to become certified as Project Management Professionals.

The Operations Division leads and coordinates its project management expertise, which ensures that employees are trained consistently across all locations.

Key project management support services offered are the following:

- project identification and analysis;
- turnkey project management;
- communication;
- risk management;
- support to specific project management tasks;
- coordination of national initiatives; and
- program management.

SUPPORT TO DEPLOYED OPERATIONS

An important part of DCC's mandate is to help DND to both meet its operational requirements and comply with federal contracting policies. DCC takes the services it already provides at bases and wings and brings them to an operational theatre. Key support services for deployed operations are the following:

- procurement;
- contract management;
- environmental services; and
- project management support.

TRACKING CLIENT SATISFACTION

Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction

Contracts Officer Keith Dyer (right) worked with the Civil Military Cooperation program (CIMIC) to help rebuild Afghanistan.

as one of its key performance indicators. In past years, DCC administered these surveys through a combination of interviews and mailed questionnaires. In 2003–04, the Corporation did all of these surveys through face-to-face interviews.

Each office conducts these surveys with the client representative responsible for each service agreement, and collects feedback by service line. Many service agreements usually involve more than one DCC service line. Surveys are administered on a staggered schedule throughout the year in each region, with the DCC representative often linking the survey interview with another business visit to minimize client interruption. During 2003–04, DCC collected 497 surveys: 111 in the Atlantic region, 28 in the Quebec region,

157 in the Ontario region, 132 in the Western region, and 69 through the National Operations Group. Based on this system, DCC received an overall client satisfaction rating of 96.9%.

In areas where DCC performed below client expectations, three distinct themes emerged. Client representative comments related mostly to administrative, communication and staff strength concerns. DCC's target for client satisfaction is 95%. In 2002–03, DCC achieved a rating of 99.9%. Results likely declined in 2003–04 due to the change in the survey format, as this was the first year that DCC conducted all surveys in the same format.

In the administrative area, client representatives raised points such as the type of service agreement used, the use of non-standardized reporting forms, and the quality of correspondence and document tracking. DCC has addressed all of these concerns by implementing systems or changes that client representatives requested or, in one case, by converting a fixed-fee service agreement to a time-based agreement.

In one case, in the Quebec region, the client representatives were dissatisfied with the type and amount of communication between them and DCC. The Corporation resolved this problem by arranging for regular project meetings and by responding faster to client queries. In the Atlantic region, one client representative felt there was not enough supervision on site. DCC remedied this problem by employing more staff. One client in the Western region did not feel that the DCC quality assurance system met expectations during a specific project. As a result, DCC created a quality assurance framework tailored to that specific client that the Corporation will use on future projects.

DCC Engineer, Trevor Rogers, escorts DND personnel through the Central Heating Plant 3 at CFB Greenwood.

COLLABORATING WITH PWGSC

A site office in downtown Ottawa handles DND project activity in the National Capital Region. Unlike other site offices, which are located on individual CF bases or wings, this location serves many DND facilities spread around the city which are managed by Public Works and Government Services Canada (PWGSC).

Joint projects benefit from each organization's strengths. DCC, for example, brings an assortment of uniquely innovative management techniques to overcome what could otherwise be difficult processes.

A good example of the DCC-PWGSC cooperation was a project for the Canadian Emergency Preparedness College (CEPC) — the organization that responds to natural disasters, political terrorism and other catastrophes. DCC and PWGSC had just a few weeks to fit up a building on Heron Road previously known as the Federal Studies Centre. In the building, an entire floor that had been sunk to accommodate computers had to be filled in. Since concrete takes time to cure, there was a potential deadline problem.

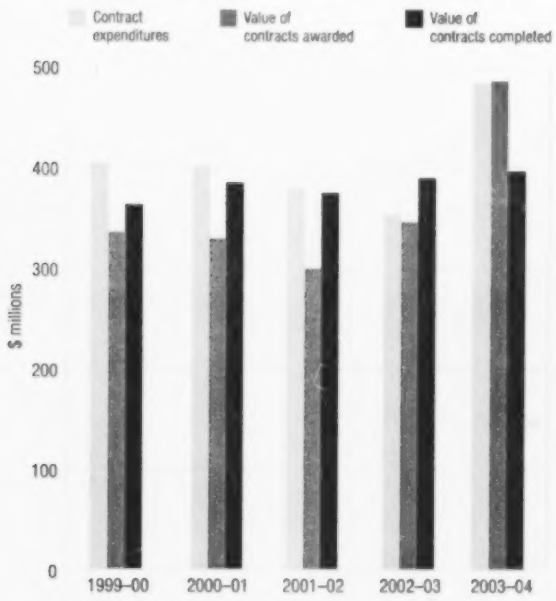
However, DCC could squeeze maximum productivity into minimum time by using a Quick Response Tender (QRT). While the fit-up itself was out to tender, DCC could get a jumpstart on filling in the floor by using a QRT.

This was followed by sequential tendering of other elements of the work to allow multiple contractors on site at the same time to expedite the work.

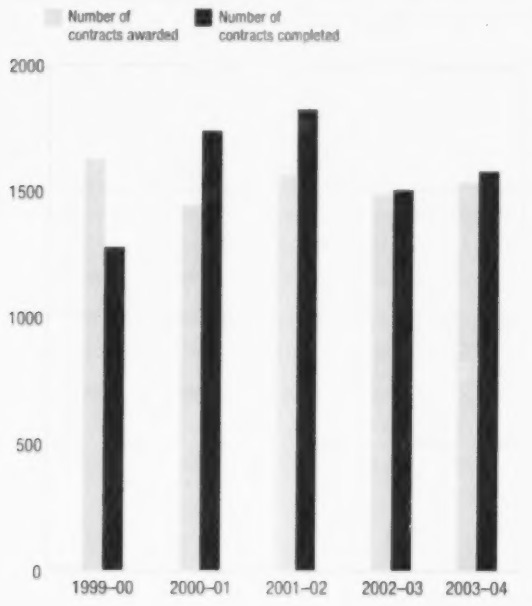
The cooperation between PWGSC and DCC enabled this project to finish on time and within budget.

Service Delivery Highlights

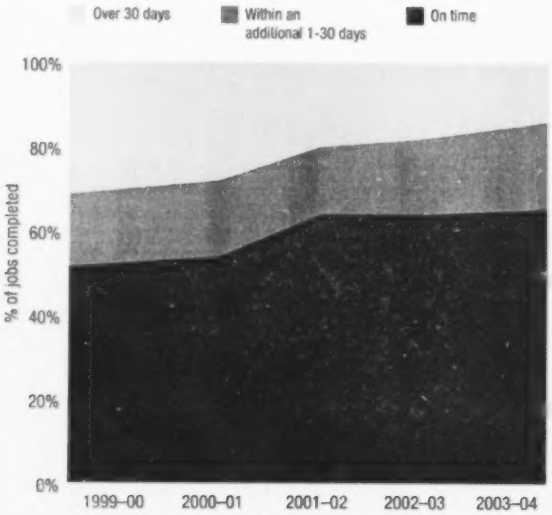
Contract Values *Figure 1*



Number of Contracts Awarded and Completed *Figure 2*

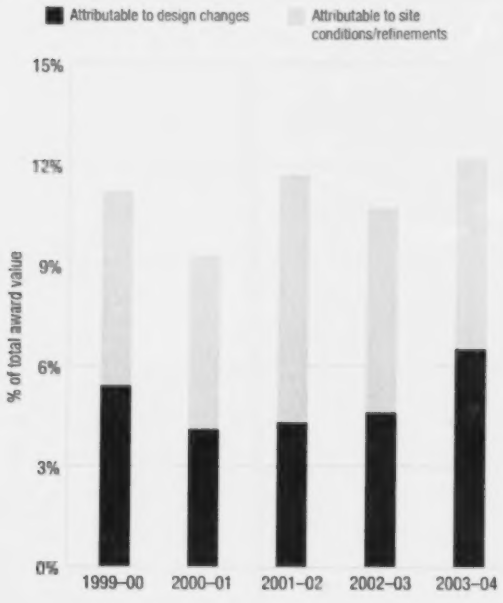


Timeliness of Construction Contract Completions *Figure 3*



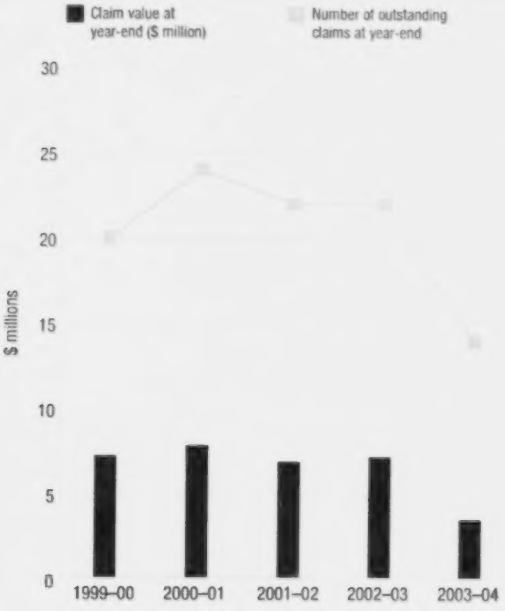
A key component of client satisfaction is schedule control. Consequently, DCC monitors timeliness of construction contract completions and works with the client to minimize schedule slippage. When it does occur, DCC ensures that DND knows the reasons. In 2003–04, 64.8% of completed construction contracts were finished by the pre-established completion date. Another 20.3% were completed within 1 to 30 days. Although there are no formal targets set for this indicator, DCC tracks this information to help keep the client informed, and to help the facility users manage the schedule risk associated with construction.

Change Order Values *Figure 4*



Changes can have a negative effect on a project's schedule and can result in cumulative impact costs. Consequently, DCC manages contracts in a way that attempts to minimize both the number and the dollar amount of contract changes. Figure 4 illustrates trends over the last five years. In 2003–04, on the basis of 837 construction contracts, 5.7% of cost growth was due to site conditions or to refinements, and 6.5% was attributable to design changes.

Contract Claims at Fiscal Year-End *Figure 5*



A direct indication of DCC's efforts to protect the interests of the Crown can be found in the dollar value of contract claims before the Courts at any given time. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments. The claim trend over the last several years as indicated in Figure 5 represents only contract claims filed in court. In 2003–04 DCC closed six claims. Two of these claims were dismissed or discontinued and four were settled for a total value of $722,775. Three new claims were raised during the year. As at March 31, 2003, there were 14 claims outstanding for a total claim value of $3,429,000.

CONTRACT EXPENDITURES, 2003–2004

(All amounts are reported in $ thousands.)

Table 3

	CONSTRUCTION CONTRACTS	PROFESSIONAL SERVICES	TOTAL
Atlantic Region			
Gagetown, NB	$ 14,325	$ 3,829	$ 18,154
Goose Bay, NL	3,825	1,038	4,863
Gander, NL	1,584	54	1,638
Greenwood, NS	15,618	1,413	17,031
Halifax, NS	28,989	2,553	31,542
Others	433	470	903
Subtotal	**64,774**	**9,357**	**74,131**
Quebec Region			
Bagotville, QC	3,571	126	3,697
Montreal, QC	11,611	673	12,284
Valcartier, QC	23,532	3,073	26,605
Subtotal	**38,714**	**3,872**	**42,586**
Ontario Region			
Borden, ON	13,517	1,063	14,580
Kingston, ON	33,256	2,868	36,124
London, ON	7,939	1,140	9,079
North Bay, ON	6,801	172	6,973
Petawawa, ON	11,719	1,864	13,583
Trenton, ON	6,233	183	6,416
Toronto, ON	13,515	1,848	15,363
Subtotal	**92,980**	**9,138**	**102,118**
Western Region			
Calgary, AB	12,183	672	12,855
Chilliwack, BC	297	79	376
Cold Lake, AB	9,487	469	9,956
Comox, BC	13,284	576	13,860
Edmonton, AB	13,688	636	14,324
Esquimalt, BC	41,707	4,089	45,796
Moose Jaw, SK	3,280	140	3,420
Suffield, AB	7,450	795	8,245
Shilo, MB	39,835	807	40,642
Winnipeg, MB	19,655	745	20,400
Wainwright, AB	3,186	377	3,563
Subtotal	**164,052**	**9,385**	**173,437**
National Operations Group			
Ottawa Area	11,010	805	11,815
Northern Work	42,329	3,659	45,988
Others	11,797	2,782	14,579
Subtotal	**65,136**	**7,246**	**72,382**
Canadian Forces Housing Agency Supply Arrangements	22,194	–	22,194
Totals	**$447,850**	**$38,998**	**$486,848**

GOVERNANCE

Defence Construction Canada (DCC) is governed by a Board of Directors. The Governor-in-Council appoints the Board on the recommendation of the Minister responsible, the Minister of Public Works and Government Services, through whom DCC reports to Parliament. Directors bring a balance of public and private sector experience to the Board, which contributes to its effectiveness. The Corporation maintains this mix using a Board profile developed in accordance with guidance from the Privy Council Office. In keeping with DCC's mandate and key challenges, the directors come from senior management positions with knowledge of engineering, construction, law, finance, general management and public administration.

The Board's work complements that of senior management. This relationship allows the Board to consistently fulfill its duties as outlined in the *Defence Production Act*, the *Canada Business Corporations Act*, the *Financial Administration Act*, government guidelines for corporate governance and management of Crown corporations, and DCC's bylaws.

At the end of 2003–04, the Board of Directors consisted of six members, including the President and CEO and a separate Chair. The Board meets on a regular schedule, or when the Chair may deem necessary.

The Board of Directors oversees the management of the Corporation to realize the best interests of the Corporation, shareholders and stakeholders. Stewardship of the Corporation is seen as the Board's key responsibility. In that role, the Board provides advice on current business affairs, vision and long-term direction. Specific tasks of the Board include the following:

- provision of strategic advice and direction, particularly in relation to business planning;
- review and assessment of potential risks to the Corporation and the process in place to mitigate risks;
- ensuring that the Corporation meets its public policy objectives and conducts business activities in an ethical manner;
- examination of the adequacy and integrity of the Corporation's internal controls system;
- monitoring the strategic and operational performance of the Corporation and tracking the performance of the Chief Executive Officer;
- ensuring that there is an adequate level of succession planning in place for senior management positions, including the CEO;
- establishing committees to assist in carrying out Board responsibilities; and,
- fostering communication with stakeholders.

To help the Board carry out its duties, an Audit Committee meets separately from the full Board to review the Corporation's financial statements, internal audit reports and the results of special examinations undertaken by the Auditor General of Canada, as required under the *Financial Administration Act*.

DCC Board of Directors

CHAIR

MR. JOHN D. MCLURE

Mr. McLure is President and CEO of JDM Consulting Inc. and a senior associate at Hill and Knowlton Canada Limited. In 1975, he left the Canadian Forces to pursue a career with the federal public service. Mr. McLure served with Treasury Board of Canada Secretariat, the Department of Fisheries and Oceans, the Department of Regional Industrial Expansion, the Department of National Defence, and the Department of Western Economic Diversification. Mr. McLure retired from the Public Service as a Deputy Minister in 1997 and joined Hill and Knowlton. Mr. McLure earned a Bachelor of Science degree from the University of Manitoba in 1963, and attended military studies at the Royal Military College of Science in England in 1964 and 1990.

BOARD MEMBERS

MS. KAREN ELLIS

Ms. Ellis has been the Assistant Deputy Minister (Infrastructure and Environment) at the Department of National Defence since 2002. She has broad experience in leading diverse workforces undergoing significant change and in managing complex issues, in both policy and operational environments across the federal government. Previously, she held Director General positions at Canadian Heritage and Public Works and Government Services Canada. Ms. Ellis earned a Bachelor of Education degree from the University of Ottawa and a Master of Arts (History) degree from Carleton University.

MR. JEAN-CLAUDE GARNEAU

As President of Excotech since 1990, Mr. Garneau has used his expertise as a consultant for Hydro-Quebec and the Société d'énergie de la Baie James, among other clients. During his 35 years with Janin Construction, Mr. Garneau was involved in numerous projects, where he acquired a solid reputation for his understanding of all aspects of the construction industry, particularly the complexity of large-scale projects. Mr. Garneau earned a Bachelor of Science (Civil Engineering) degree from McGill University in 1953.

THE HON. STEWART MCINNES, *P.C., Q.C.*

Mr. McInnes has practised law for more than 35 years, working in the areas of corporate and commercial law, construction law, environmental law and litigation. As a former Member of Parliament for Halifax, Mr. McInnes served as Parliamentary Secretary to the Minister of International Trade, Minister of Supply and Services, and Minister of Public Works. A member of numerous organizations, including the Canadian Bar Association and the Canadian Foundation for Dispute Resolution, Mr. McInnes earned Bachelor of Arts and Bachelor of Laws degrees from Dalhousie University.

MR. ROSS NICHOLLS, *P.ENG.*

Mr. Nicholls joined DCC in 1978. Before his appointment to his current position of President and Chief Executive Officer in 1996, he held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario. He is a member of the Professional Engineers of Ontario, l'Ordre des ingénieurs du Québec, the Canadian Military Engineers Association, and is on the board of trustees for the Canadian Mechanical Contracting Education Foundation. Mr. Nicholls earned a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil Engineering) degree from the Technical University of Nova Scotia.

MS. NANCY PENNER

Ms. Penner has practiced law for 20 years, in the securities, oil and gas, and general corporate areas as partner and counsel in an Alberta law firm. She has served on the Boards of Directors of numerous public and private corporations and not-for-profit organizations and on the executive bodies of various industry organizations. Ms Penner holds a Bachelor of Arts degree from the University of Manitoba and earned a Bachelor of Laws degree from the University of Calgary in 1984.

COMPTROLLERSHIP

The Board, management and all DCC employees understand that the Corporation must be fully accountable to Canadians for its decisions and practices, and that these decisions and practices must be fully transparent to Canadians. Effective comptrollership ensures that the day-to-day control of DCC's operations falls well within broad government guidelines and expectations. These include ensuring that DCC's corporate policies and procedures reflect sound, ethical and values-based business practices and that they allow the Corporation to respond to challenges appropriately and quickly. The Corporation achieves its comptrollership objectives by adhering to its governing legislation, providing clear strategic direction and creating a corporate plan based on sound business planning. Elements of the effective comptrollership system include performance measurement, succession planning, risk management, communications, and an audit regime that uses both the Auditor General and an independent, third-party, internal auditor who reports directly to the Board.

Values and Ethics

In 2003–04, DCC drafted a Code of Business Conduct to reaffirm the ethics, values, and standard conduct for employees of the Corporation. Ultimately, DCC is an organization that is responsible to the people of Canada. Because employees award and manage contracts involving hundreds of millions of dollars, management has intentionally set the bar for ethical standards very high. By complying with appropriate standards of conduct in business activities, employees reinforce the Corporation's reputation, image and success. Adherence to the code, which applies to all continuing and term employees of the Corporation, is a condition of employment. The new code, to be released in 2004, will require that employees sign a document certifying that they have read and understand the code and that they are obliged to review the code once a year.

CORPORATE STEWARDSHIP

Throughout 2003–04, both the Board of Directors and senior management fulfilled their key governance and management responsibilities, as detailed by the government. The following are highlights of their activity over the last year.

Strategic direction — The Board continued to monitor the Corporation's strategic situation and associated strategic responses. The principal activity of the past year was approving the 2004–08 Corporate Plan.

Audit regime — Due to internal audits and staff reviews of practices, the Board remains confident that the Corporation has sufficient internal controls to fulfill its comptrollership obligations and its obligations in contracting and contract management.

Communications — The Board maintains a policy of transparency of information, while recognizing the need to protect both personal and proprietary information. The Corporation works with its principal client to meet its obligations under access to information legislation.

Managing Risk

The Board and management of DCC share the aim of integrating risk management into the overall corporate planning process. As a key component of governance, DCC continues to balance risks to the Corporation with its need to ensure a high level of operational support to the Department of National Defence and the Canadian Forces. Characteristics of DCC's risk management framework are as follows:

- assurance of line managers' responsibility, authority and accountability for identifying, assessing and managing corporate and project-related risks;
- enhancement of decision-making through the use of common risk language and procedures; and
- focussed efforts to allocate resources and manage risk in fulfilling DCC's financial, operational and reputation "bottom lines."

The framework comprises the overall policy and procedures that allow the Board, management and all employees to effectively and efficiently manage risk. The ongoing responsibilities for managing risk are shared throughout the Corporation.

The Board provides the overall guidance for managing risks within DCC and periodically evaluates the effectiveness of its risk management framework. DCC's internal auditor, responsible directly to the Audit Committee, reports on the effectiveness of this framework.

The Chief Executive Officer fosters a culture that values risk management as a decision-making tool that improves accountability; oversees the implementation of the framework; encourages an increase in risk management capacity throughout the Corporation; oversees the development of the risk management strategy; and reports on risk management performance. The Risk Management Committee, composed of the President and all Vice-Presidents, prioritizes risk management activities, oversees incorporation of risk management activities into the Corporate Plan and subordinate business plans, and reviews projects or programs that pose high risks to the Corporation.

Finally, the entire Management Group oversees the integration of risk management into the overall corporate governance structure, based on direction from the Risk Management Committee; provides managers and employees with training and development opportunities in risk management; designs and implements tools to improve the process; and allocates resources to manage risks, through the corporate and business planning processes.

DCC monitors key strategic risks within several broad categories deemed key to the success of the Corporation: support for government and client objectives; relevance of the Corporation's mandate; ability to serve clients; effectiveness of corporate management support and control systems; and effectiveness and efficiency of the Board. The Board and management have identified key areas within these strategic risk themes that require specific actions or regular monitoring. At this time, the Board and management agree that the Corporation is well able to manage most identified risks, impact and probability are low.

The Corporation's Risk Management Framework was first implemented in 2002–03 and was fully applied at the site level during 2003–04. While the Corporation's overall operational and administrative risks remain low, the risk profile is one source of information DCC uses to develop its long-term strategic plan. In the coming year, the Risk Management Committee will continue to validate the current corporate risk profile and to review the steps needed to better integrate the risk management and annual planning cycles.

APPLYING RISK MANAGEMENT

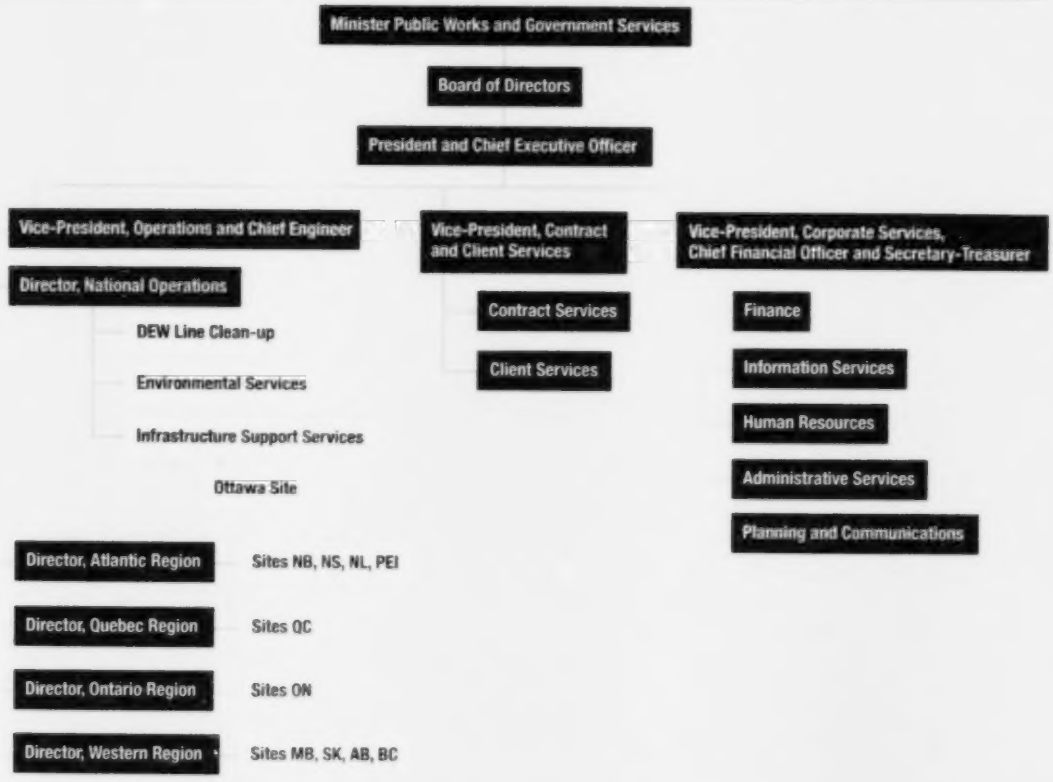
Taking direction from the Corporate Risk Management Framework, communicated by regional directors to site managers, each DCC site develops its own list of operational risks based on its specific project environment and develops subsequent measures to mitigate risk at the site level. The DCC Operations Manual — the handbook for all employees involved in project or contract management — directs employees to take a proactive rather than a reactive approach to risk management. Examples of tools that sites use to determine risk elements in a project are the green construction checklist and the hazardous materials assessment form.

Area engineers and managers at the regional level track identified site-specific risks. If warranted, they may provide in-person support to the sites in high-risk circumstances. Identification of risks and mitigation measures is an ongoing task throughout all levels of the Corporation. It is a regular agenda item at quarterly site-regional meetings and at bimonthly senior management meetings. Although the formalized risk management framework is relatively new — it was created in 2002–03 — the identification, evaluation and mitigation of risk is a daily component of everyone's job and the concept is ingrained in DCC's corporate culture.

ORGANIZATION

DCC's executive consists of the President and Chief Executive Officer; the Vice-President, Operations and Chief Engineer; the Vice-President, Corporate Services, who is also the Chief Financial Officer and Secretary-Treasurer; and the Vice-President, Contract and Client Services. DCC's head office, which includes contract services, corporate services and the national operations group, is located in Ottawa. The Operations Division includes site offices at all active CF establishments in Canada, which are managed by the regional offices. Until recently, DCC had three regional offices. To support clients better in light of increased project volume, DCC split the Central region into the Ontario and Quebec regions in 2003–04. In addition, DCC maintains seasonal remote offices in the High Arctic, as required for the DEW Line Clean-Up Project. The Corporation also has a presence in Bosnia-Herzegovina and in Afghanistan, in support of CF operations abroad.

Organization *Figure 6*



Executive Team

MR. ROSS NICHOLLS, *P. ENG.*
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Nicholls joined DCC in 1978. Before his appointment to his current position of President and Chief Executive Officer in 1996, he held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario. Mr. Nicholls earned a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil Engineering) degree from the Technical University of Nova Scotia. He is a member of the Canadian Military Engineers Association and is on the board of trustees for the Canadian Mechanical Contracting Education Foundation.

MR. RUSSELL A. PERRIE, *P. ENG.*
VICE-PRESIDENT OPERATIONS AND CHIEF ENGINEER

Mr. Perrie has been with DCC since 1978 and has been involved in a variety of government initiatives with DCC and the Department of National Defence. In various capacities, he has managed a wide range of consultant, facilities management and defence construction programs, projects and contracts. Mr. Perrie earned a Bachelor of Science in Engineering (Civil) from the University of Manitoba and has completed the Executive Program at Queen's University. He is active in the Canadian Military Engineers Association as a Vice-President of Member Services.

MR. ANGELO OTTONI, *CA*
VICE-PRESIDENT, CORPORATE SERVICES, CHIEF FINANCIAL OFFICER AND SECRETARY-TREASURER

Mr. Ottoni joined DCC in 2001 and manages five departments, who are responsible for human resources, information services, finance, planning and communications and administration. Before joining DCC, he worked for nine years in the technology industry and for fifteen years with a major international accounting firm. Mr. Ottoni obtained a Bachelor of Commerce degree from Concordia University as well as a Public Accountancy diploma from McGill University.

MR. RONALD DE VRIES, *P. ENG.*
VICE-PRESIDENT, CONTRACT AND CLIENT SERVICES

Since joining DCC in 1983, Mr. de Vries has led a variety of corporate-and industry-related initiatives. He has been involved in all aspects of DCC's business from contracting and contract management to project management and environmental services. Mr. de Vries earned a Bachelor of Science (Civil Engineering) and completed the Executive Program at Queen's University. He is currently active on several industry and government procurement committees and is the Vice-President of the Canadian Public Procurement Council.

Senior Management Team

MR. MICHAEL DARROW,
P. ENG.
DIRECTOR, ATLANTIC REGION

Since joining DCC in 1971, Mr. Darrow has been responsible for major infrastructure projects throughout the Maritime provinces. He has been the Regional Director, Atlantic Region, since 1999 and he manages the Atlantic Region program, which averages $75 million in annual work volume. Mr. Darrow has earned a certificate in Applied Science from Acadia University, a Bachelor of Engineering (Civil Engineering) degree from the Technical University of Nova Scotia and a certificate in Environmental Management from Dalhousie University.

MR. STEPHEN G. KARPYSHIN,
P. ENG.
DIRECTOR, WESTERN REGION

Mr. Karpyshin joined DCC in 1988 and was appointed Regional Director, Western Region, in 1998. Over the past fifteen years, he has worked on such projects as the North American Air Defence Modernization project and the Infrastructure Reduction Program in Edmonton. Mr. Karpyshin graduated from the University of Manitoba with degrees in physics and civil engineering and has completed the Executive Program at Queen's University. He is a board member of the Alberta Construction Tender System and a member of the Alberta Federal Council.

MR. MARC LANTEIGNE,
P. ENG.
DIRECTOR, QUEBEC REGION

Mr. Lanteigne joined DCC in 1988 and is the Regional Director, Quebec Region. He has worked on projects such as the construction of short-range radar sites in Labrador and he has worked as the DCC Area Engineer for the Western Region. Mr. Lanteigne earned a Bachelor of Science in Engineering (Civil) degree from the University of New Brunswick and has also completed the Executive Program at Queen's University. He is a member of l'Ordre des Ingénieurs du Québec and of the Association of Professional Engineers and Geoscientists of New Brunswick.

MR. DAVID MCCUAIG,
PMP, MPM
DIRECTOR OF NATIONAL OPERATIONS

Mr. McCuaig has been with DCC since 2000 and is the Director, National Operations Group. His team of 45 engineering and project management professionals oversees over $50 million of work annually in infrastructure, environmental services, and environmental remediation. This includes support to deployed operations, and the DEW Line Clean-Up Project. Mr. McCuaig earned a Masters in Project Management from the Université du Québec, holds a Project Management Professional designation and has completed the Executive Program at Queen's University.

MR. RANDY MCGEE,
P.ENG., GSC
DIRECTOR, ONTARIO REGION

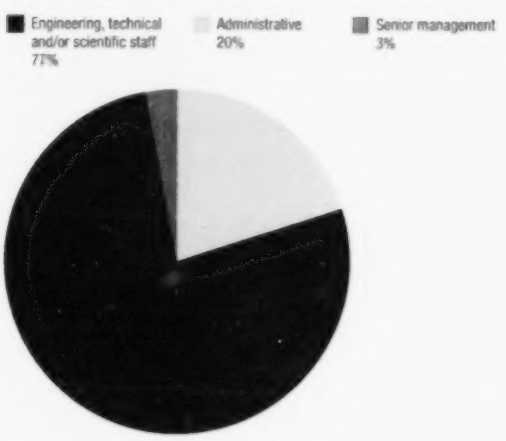
Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector running his own project management firm. He has extensive experience in managing construction and consultant projects as well as design-build, partnered and construction management projects. Mr. McGee earned a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba, has completed the Executive Program at Queen's University and is a Canadian Construction Association Gold Seal Certified Project Manager.

Human Resources

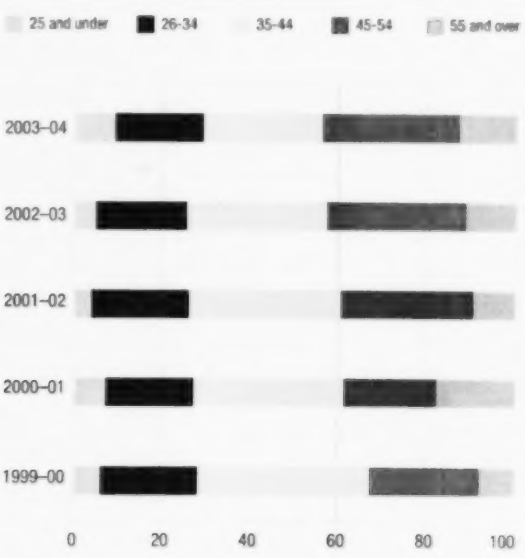
DCC acknowledges that its chief asset is people and that corporate successes are built on employee abilities and commitment. One of DCC's strengths is its dedicated workforce of professionals. The team consists of a mix of engineers, engineering technicians and technologists, environmental scientists and experienced tradespeople. Other specialists in finance, human resources, information technology, communications and administration support these employees. At the end of this fiscal year, DCC had 348 employees on March 31, 2004.

DCC recognized one employee in 2003–04 with 15 years of service, three employees with 20 years of service and three employees with 25 years of service. Employees acknowledge that working for DCC is interesting, challenging and never boring, and that there is a sense of mutual respect. Recruitment practices focus on engaging professionals who strive to maintain the Corporation's continued success and who take pride in achieving their personal goals.

DCC Workforce *Figure 7*



Employee Demographics *Figure 8*

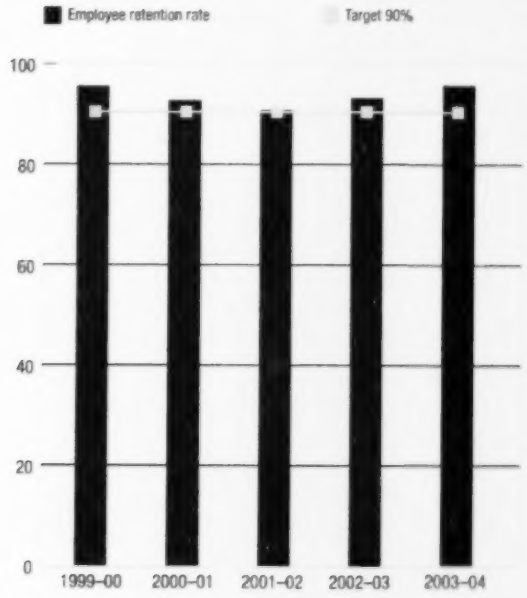


RECRUITMENT

DCC's internal recruitment practices helped 51 employees move further along their career paths through promotions and transfers during the past year. This figure includes all internal promotions and reclassifications; foreign assignments in Bosnia-Herzegovina and Afghanistan; and northern assignments for the DEW Line projects. When employees take advantage of the opportunity to work overseas or in the North, the Corporation, the client and the employee all reap the benefits. The client benefits from the transfer of DCC employee's skills both to and from one of its operational theatres or remote sites where employees have the chance to hone their skills and test themselves. Throughout all of this interchange, the Corporation succeeds in expanding its collective base of knowledge and experience.

RETENTION RATE

Employee Retention Rate *Figure 9*



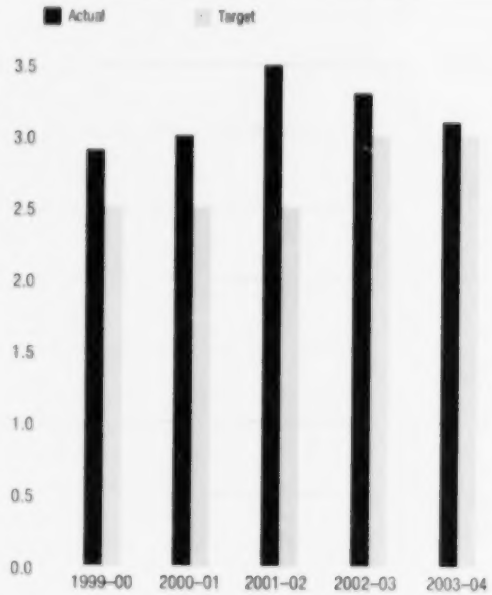
Even though DCC's projects are somewhat seasonal, the employee retention rate has stayed above 90% for several years. DCC views this rate as a measure of employee satisfaction with DCC's working environment. As Figure 9 indicates, the retention rate increased to 95.7% in 2003–04 from 92.2% in 2002–03.

One of the main reasons for this increase was the larger employee base at year-end. Over the last fiscal year, DCC's head count grew by 24% — from 280 to 348. This growth was primarily due to an increase in project work, especially within the diversified service lines. The number of lateral transfers rose as well from 41 in 2002–03 to 51 in 2003–04. To maintain DCC's attractive work environment, the Corporation promotes employee opportunities for training and lateral transfers within the Corporation.

Paul McDonald, Manager of Environmental Services, speaks at DCC's Environmental Service Line Forum in October 2003.

STAFF TRAINING AND DEVELOPMENT

Professional Development to Salary Cost Ratio *Figure 10*



DCC acknowledges that its ability to serve its client is heavily reliant on the skills of its employees, hence ongoing training and development is given a high priority. Each year, the Corporation sets a spending target for training and development as a proportion of total salary costs. In 2003–04, this target was 3%. For the fifth consecutive year, DCC surpassed its spending target; in 2003–04, the Corporation spent 3.1% of salary costs on training and development. DCC endeavours to foster a supportive work environment for all employees and works to ensure that they are ready to meet their professional challenges. Figure 10 illustrates the level of financial commitment that DCC has made to training and development.

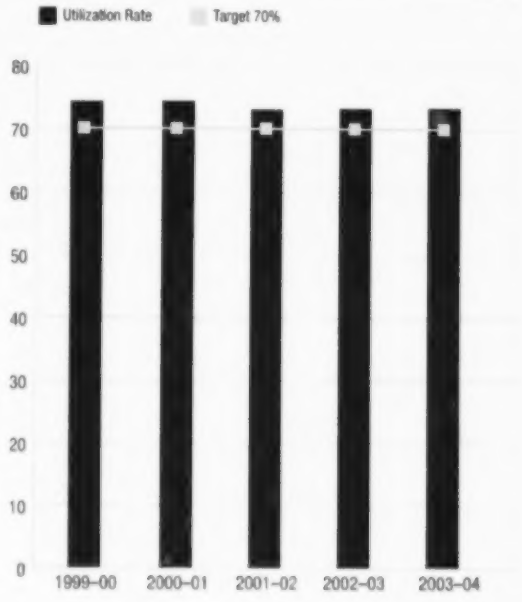
In 2004–05, DCC will begin creating a more formal framework for staff training and development. As part of this project, DCC will review existing systems and practices, identify needs for tools and delivery vehicles, develop standards, and implement new programs and systems. This major undertaking is expected to run beyond the upcoming fiscal year.

HUMAN RESOURCES MANAGEMENT FINANCIAL MEASURES

Utilization Rate

The utilization rate (see Figure 11) is an important performance indicator as well as a key financial management tool. It indicates the hours spent on contract-related functions as opposed to non-billable overhead functions. In 2003–04, the utilization rate was 73.4%. The rate has remained fairly consistent at this level for the past five years.

Utilization rate *Figure 11*
(Percentage of employee hours spent on client contract work)

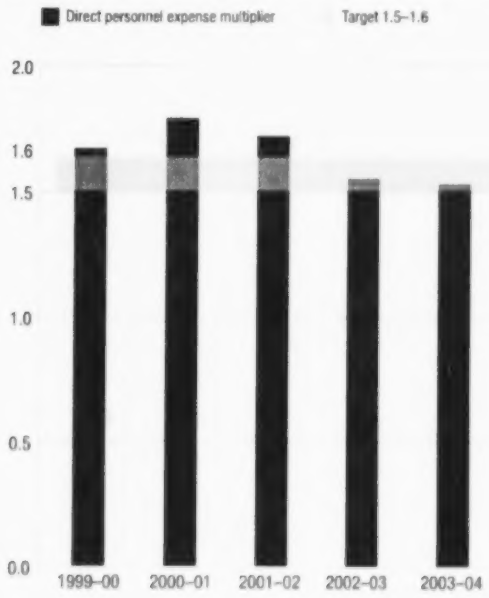


DIRECT PERSONNEL EXPENSE MULTIPLIER

The Direct Personnel Expense Multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. Direct project personnel expenses include salary costs and a mark-up factor to account for benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used to establish billing rates for DCC services. Fluctuations in the actual multiplier from period to period are due to the timing of billings on certain fixed-fee projects, as well as to the need to ensure adequate operating contingency funds to account for unexpected fluctuations in the client's construction program. This approach is in accordance with DCC's financial management policy.

Direct Personnel Expense Multiplier *Figure 12*

(Ratio of services revenue to direct payroll costs including benefits and compensated absences.)



The DPEM target range for 2002–03 and 2003–04 was 1.50 to 1.60. In 2002–03, the DPEM was 1.55 and in 2003–04 it was 1.53. Overall, salary costs over the past year have risen faster than revenues. As a result, the DPEM for 2003–04 was lower than in 2002–03, although it remained within the targeted range.

Awards and Recognition

DCC proudly recognizes the following employees for their exceptional contribution to achieving corporate goals.

NATIONAL AWARDS 2003–04

President's Award for outstanding contribution to the Corporation
Mr. Siva Gnananayakan, Project Engineer
Kingston, Ontario

Customer Satisfaction Award for outstanding service to clients
Mr. Paul Champagnie, Environmental Coordinator
Ottawa, Ontario

Service Innovation Award
Ms. Melinda Nycholat, Site Manager
Greenwood, Nova Scotia
and
Mr. Michael Driscoll, Procurement Specialist
Ottawa, Ontario

The National Award winners for 2003–04 are, front, Paul Champagnie, back-left to right, Siva Gnananayakan, Melinda Nycholat and Michael Driscoll.

NATO MEDAL AND CANADIAN PEACEKEEPING SERVICE MEDAL (CPSM)

The NATO Medal is awarded to military and civilian personnel who are, or have been, engaged in operations or in direct support of operations conducted by NATO. The Canadian Peacekeeping Service Medal (CPSM) was created to recognize all Canadians who contribute to international peace through specific peacekeeping missions.

DCC is proud of the following employees who accepted the challenge of serving Canada and DND's deployed operations. Each of these employees received both medals for time served with Operation PALLADIUM (Bosnia-Herzegovina) in 2003–04.

Mr. Paul Champagnie, Contract Manager
Ottawa Head Office
Operation PALLADIUM (Bosnia-Herzegovina)
Rotations 10, 11 and 12, 2002–03

Ms. Wanda Deong, Site Manager
Winnipeg, Manitoba
Operation PALLADIUM (Bosnia-Herzegovina)
Rotation 12, 2003

Mr. Chris Dzeipak, Electrical Coordinator
Esquimalt, British Columbia
Operation PALLADIUM (Bosnia-Herzegovina)
Rotation 12, 2003

Mr. David Harvey, Contract Coordinator
Cold Lake, Alberta
Operation PALLADIUM (Bosnia-Herzegovina)
Rotations 11 and 12, 2003

Mr. Wesley Nash, Environmental Coordinator
Edmonton, Alberta
Operation PALLADIUM (Bosnia-Herzegovina)
Rotations 12 and 13, 2003

Mr. Harry Rohde, Contract Coordinator
Petawawa, Ontario
Operation PALLADIUM (Bosnia-Herzegovina)
Rotations 11 and 12, 2002–03

MANAGEMENT DISCUSSION AND ANALYSIS

Update on Strategic Initiatives for 2003–2004

DCC's planning and reporting process is structured into four strategic themes, fostering continuity in all plans and reports and making it simpler to track corporate development. These strategic themes are **corporate governance and leadership, service delivery, managing stakeholder relationships,** and **corporate services and support**. All initiatives in the Corporate Plan and business plans can be categorized within one of these areas, and success in each of these themes supports the Corporation's overall strategy. Note that DCC's planning cycle is based on a fiscal year that runs from April 1 to March 31.

CORPORATE GOVERNANCE AND LEADERSHIP INITIATIVES

Good corporate governance is an essential foundation of successful business, especially in the public sector, where the notion of public service demands accountability, fairness, trust, and transparency of operations. Given DCC's role as a Crown corporation, ensuring ethical and appropriate business practices remains at the forefront of DCC's strategic priorities. Led by the Privy Council Office and the Treasury Board, DCC supports a number of governance-based initiatives designed to ensure continuing good management and ethical business practices. DCC is proud of its governance record over the years and will continue to demonstrate leadership in this area. The Corporation already has a corporate governance framework, which is reviewed each year by the Board of Directors and by management during the strategic planning process. Governance concepts such as stewardship, risk management and accountability to stakeholders are promoted by the Board to management, and then by management to employees.

DCC strives for continuous improvement in all aspects of its business, including governance. DCC's initiatives in 2003–04 in the area of corporate governance and leadership could be described by the phrase *validate, communicate and innovate*. One of the initiatives identified in last year's plan aimed to improve DCC's corporate planning process by validating conclusions regarding client priorities and by evaluating the planning process. Employees at all levels of authority who interacted face-to-face with the client conducted the client validation informally throughout the year. DCC collected feedback through client forums, open houses and individual meetings. The Corporation used this feedback, along with comments from participants in the planning process, to create a more refined, standardized and relevant planning format, which DCC adopted to create this corporate plan.

Bolstering DCC's corporate communications capacity was deemed a priority in last year's plan. Work completed last year included revamping the Web site, which now features a useful careers and recruitment portion, and producing a corporate video to raise general awareness of DCC.

Finally, to kick off a formal campaign to encourage innovation among employees, DCC initiated a corporate recognition award and established a fund to encourage innovation in the workplace. The Corporation allocated $125,000 to support innovative ideas that will advance DCC's service delivery capability.

From left to right: Rear Admiral David Morse, Lieutenant Colonel, Andre Corriveau and Randy McGee (Director, Ontario Region, DCC) at the opening ceremony for the Stone Frigate Building at RMC in Kingston, Ontario.

SERVICE DELIVERY INITIATIVES

Since the Corporation's mission is to deliver high-quality, timely and efficient services to DND, achieving excellence in service delivery remains crucial to DCC. The Corporation continually strives to improve its service delivery on each successive project and to enhance the knowledge of client requirements it has gained over the past half century.

The changing nature of DCC's business and the growth of new service lines meant DCC needed to develop a comprehensive **Business Tool Kit** to help employees interact with clients. Through this initiative, DCC has developed technical information sheets, proposal templates, contact lists, references, business advice and guidance, and a system to allow all employees to draw on the central repository of information. This initiative will constantly evolve over time, with additions, updates and enhancements. At the end of 2003–04, the framework for the toolkit and initial content had been established on the DCC intranet.

STAKEHOLDER RELATIONSHIPS

DCC needs to maintain positive relationships with government, its client, the industry and professional associations to operate effectively. The quality of these relationships can have a major impact on business outcomes. This theme covers the broader strategic aspects of corporate social performance involving those groups affected by DCC's corporate objectives, and not specifically the client–DCC service delivery relationship.

In last year's corporate plan, DCC committed to remaining open to any opportunities where its participation would enhance a sense of community and partnership with DND and relevant industry associations. DCC's senior management was actively involved in all the major industry associations. The Vice-President, Contract and Client Services, finished his term as President of the Canadian Public Procurement Council and continued to serve on the Council's board of directors. DCC also participated in local industry events that supported DND and the construction industry.

Richard Moore, Chair, Canadian Construction Association Standard Practises Committee, discussed industry requirements at DCC's annual Contracting Services forum in spring 2004.

HISTORY AT WORK

Bill Smith believes that we should never forget "the price that the valiant have paid in war and in peacekeeping." He devotes his spare time to military history, particularly of the area around CFB Borden in Ontario, where he works as a project coordinator.

Smith was one of several people honoured with awards last year to mark the centennial of the Canadian Military Engineers. Smith was named a "Centennial Champion" for his history of CFB Borden from its construction during World War I to the end of World War II.

The award recognizes people who make "conspicuous contributions to the centennial goals of celebration and commemoration." They have either helped bring together the Canadian military engineer family or they have increased awareness and appreciation of military engineering. Bill Smith, as a DCC employee was honoured to have received this award.

Also in the past year, many DCC employees remained active in professional associations and client-related organizations, including the Project Management Institute, the Royal Architectural Institute of Canada, local administrative associations, the Alberta Society of Professional Biologists and many local construction associations across Canada, to name a few. DCC continually reinforces the importance of this initiative among employees, encouraging them to become active in their areas of practice and to be productive members of their professional and industry communities.

Angelo Ottoni, Vice-President of Corporate Services and Chief Financial Officer, presents the 2004–05 Corporate Services' business objectives to the contracting services team.

CORPORATE SERVICES AND SUPPORT

DCC has well-established systems for managing its day-to-day operations, human resources, and financial and information systems. DCC's internal administrative ability touches all aspects of the business and is the key to success in maintaining high-quality service to DND. Consequently, DCC strives to keep up to date with new business methods, regulatory practices and technology, all of which affect the quality of its service delivery.

Efficiency and cost effectiveness of operations, as well as the need to learn about the latest industry technology, were the catalysts of several corporate services initiatives in 2003–04.

To reduce the length of time suppliers wait to receive payment on invoices, DCC implemented an electronic payment system. Not only does this system make it easier for suppliers to do business with DCC, but it also reduces the cost and work associated with generating cheques. Ease of access to common documents came into play with the initiative to create a common server/file repository, which was implemented in the last half of 2003–04. This electronic business process allows DND and DCC to share service, billing and other contract information faster, which makes administrative procedures more efficient.

Since DCC is offering a greater range of services, the Corporation needs to ensure that its human resources administrators have sufficient resources and authority to recruit, develop, promote and retain staff, in light of business trends and labour market conditions. The management team reviewed the management level and structure of the DCC human resources function. Given the geographic spread of DCC offices and the day-to-day functions of each, DCC decided to maintain practical authority for human resources at the regional and site level.

Financial Performance

FINANCIAL MANAGEMENT POLICY

The Corporation's financial management policy is based on a fundamental assumption that the Corporation is a going concern and its stated mandate will continue for the foreseeable future.

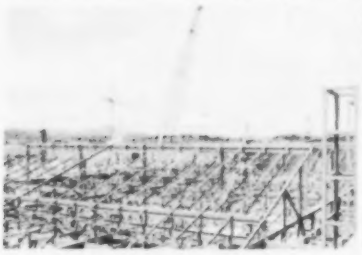
Until 1997, the Corporation operated on appropriations-based funding. Since 1997, the Corporation has been operating on a fee-for-services basis. Since this date, the Corporation's financial management policy has been to generate sufficient cash to meet its anticipated operating and capital requirements and to settle its financial obligations as they become due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the operating risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures on the part of its client, DND. In order to fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation also allows for reasonable levels of operating contingencies in determining the amount of cash reserves to carry. Cash levels are constantly monitored and reviewed by management to determine their appropriateness. Any surpluses or shortfalls that may occur from time to time are taken into consideration in future business operating plans.

FISCAL 2003–2004 COMPARED WITH FISCAL 2002–2003

Services Revenue

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Construction contract management	$18,306	$14,840	$3,466	23%
Contracting	2,940	2,600	340	13%
Construction and contracting services	**21,246**	**17,440**	**3,806**	**22%**
Environmental	2,830	2,557	273	11%
Project management support	2,457	1,986	471	24%
Energy performance	578	508	70	14%
Commissioning	435	448	(13)	-3%
Facilities management	621	432	189	44%
Facilities decommissioning	457	385	72	19%
Other	793	666	127	19%
Related services	**8,171**	**6,982**	**1,189**	**17%**
	$29,417	$24,422	$4,995	20%



Overall, services revenue increased in the year ended March 31, 2004, by $4,995,000 or approximately 20% over the previous fiscal year. This increase is attributable to a combination of an increase in average billing rates, which averaged approximately 4%; and an increase in total billable hours of approximately 16%, due to increased business activity.

Although the Corporation experienced a 17% overall increase in related services revenue, construction and contracting services grew at a faster rate of 22%. This resulted in a slight change in the relative percentages of total revenue generated from construction and contracting services and from related services. These figures were 72% and 28% respectively in 2003–04, as opposed to 71% and 29% in the previous fiscal year. This revenue mix continues to approximate the Corporation's objective to grow related services to about 30% of overall service offerings. The 44% increase in revenue for facilities management services is attributable to the client's growing need for such services and tendency to look towards DCC to provide them, based on the Corporation's growing expertise in this area. There was moderate growth in other non-traditional services with the exception of commissioning, which declined slightly. This decrease can be attributed to a cyclical reduction of the client's demand for commissioning activities during the fiscal year.

Interest Revenue

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Interest revenue	$126	$113	$13	12%

Interest revenue, which is generated from the Corporation's average current account bank balance, increased in the year ended March 31, 2004, by $13,000 or approximately 12% over the previous fiscal year. Although interest rates declined slightly over the fiscal year, interest income nevertheless increased because the Corporation maintained higher average cash balances during the course of the fiscal year ended March 31, 2004.

Salaries and Employee Benefits

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Salaries	$19,203	$15,387	$3,816	25%
Benefits	4,806	3,887	919	24%
	$24,009	$19,274	$4,735	25%

Salaries increased in the year ended March 31, 2004, by $3,816,000 or approximately 25% over the previous fiscal year. This increase is primarily attributable to a combination of higher levels of staff, which accounted for approximately 16% of the increase; inflationary increases and performance-based incentives, which accounted for about 8% of the increase; and higher severance, vacation and overtime payments, which accounted for approximately 1% of the increase.

Employee benefits increased in the year ended March 31, 2004, by $919,000 or approximately 24% over the previous fiscal year. This increase is in line with a similar increase in salaries, as discussed above. As a percentage of salaries, employee benefits for the year ended March 31, 2004, represented 25% of salaries, consistent with the previous fiscal year.

Operating and Administrative Expenses

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Telephone and communications	$499	$521	$(22)	-4%
Employee training and development	596	510	86	17%
Rent	613	461	152	33%
Travel	344	387	(43)	-11%
Professional services	554	369	185	50%
Staff relocation	550	241	309	128%
Other overhead expenses	1,272	987	285	29%
	$4,428	$3,476	$952	27%

Operating and administrative expenses for the year ended March 31, 2004, increased by $952,000 or approximately 27% over the previous fiscal year. Staff relocation costs increased by approximately 128% over the previous fiscal year. This significant increase was due to the fact that more staff relocations occurred during the year, in response to geographical shifts in the client's work volumes. In addition, significant relocation costs were incurred as a result of the reorganization of the Central region into two regions, Ontario and Quebec. Professional services costs increased by approximately 50% due to higher spending on various items, including IT support services to maintain and troubleshoot the Corporation's main business application, JD Edwards OneWorld; enhancements to the Corporation's intranet site; translation services; internal audit services; and legal services.

Rent expense increased by 33% over the previous fiscal year. DCC procured additional office space during the year to accommodate staff growth, particularly at the head office location in Ottawa, and paid higher rental and operating costs. Employee training and development costs increased in line with staff growth. As a percentage of salaries, employee training and development remained consistent from year to year at approximately 3%. Telephone and communications costs decreased by 4% over the previous fiscal year. These costs have been decreasing over the past three fiscal years due to the Corporation's continuing efforts to improve its telecommunication lines and to improve network connectivity by moving to higher speed broadband lines. The Corporation's travel costs also dropped by 11%, despite the increase in business activity, primarily due to better travel planning, and lower airline fees.

Other overhead expenses increased by about 29% over the previous fiscal year. Included in the 2003–04 total is $109,000 in one-time costs primarily relating to the head-office move. Spending on client services and business development activities also increased to $181,000 from $90,000 the previous fiscal year, partly due to spending on an innovation fund set aside during the past fiscal year to develop innovative ideas into real service improvements. Other fluctuations in operating costs were due largely to a combination of inflationary and business volume increases.

Capital Expenditures

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Software	$242	$294	$(52)	-18%
Computer equipment	269	391	(122)	-31%
Furniture and equipment	149	148	1	1%
Leasehold improvements	732	71	661	931%
	$1,392	$904	$488	54%

The Corporation's capital expenditures for the fiscal year ended March 31, 2004, totalled $1,392,000, representing an increase of 54% over the previous fiscal year. The significant increase in leasehold improvement expenditures is the result of fit-up costs related to the relocation of the head office to a new building. Expenditures on computer software and equipment dropped for several reasons: decreased implementation costs related to the Corporation's main business application, JD Edwards OneWorld; lower costs for operating system software, following the upgrade to Windows 2000 in 2002–03; and decreased spending on computer hardware servers, following major upgrades to the communications infrastructure.

Liquidity and Capital Resources

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Cash	$4,307	$4,232	$75	2%
Due from related parties	$4,961	$4,227	$734	17%
Current liabilities	$4,264	$3,561	$703	20%

The cash balance at March 31, 2004, remained at a level consistent with the previous fiscal year. During the past year, operating activities generated $1,467,000 in cash, while the Corporation spent $1,392,000 in cash on capital expenditures. In accordance with its financial management policy, the Corporation maintains sufficient cash to meet its anticipated operating and capital requirements and to settle its financial obligations as they become due. The Corporation has no segregated cash reserves and cash in excess of short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The increase at March 31, 2004, in due from related parties of $734,000, or 17%, compared to the previous fiscal year is primarily due to a combination of higher revenues in February and March 2004 as compared with February and March 2003, and a slight increase in the days sales outstanding, from 45 days at March 31, 2003, to 49 days at March 31, 2004.

The increase at March 31, 2004, in current liabilities of $703,000, or 20%, compared to the previous fiscal year is attributable to a combination of factors, including an increase in the current portion of the provision for employee benefits; higher rental costs; and the timing of incurrence and payment of certain expenditures, particularly fit-up costs related to the head-office move.

Employee Future Benefits

	2003–2004	2002–2003	VARIANCE	
(in $ thousands)			$	%
Accrued benefits	$4,528	$3,799	$729	19%
Less: current portion	609	267	342	128%
Long-term portion	$3,919	$3,532	$387	11%

The Corporation records a liability for the estimated cost of severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2004, increased by $729,000, or approximately 19%, over the previous fiscal year. The balance increased by the amount of benefits accrued in the current fiscal year of $840,000 and decreased by the amount of benefits paid in the current fiscal year of $111,000. This liability is primarily long-term and although the actuary projects a current payout amount, the exact timing of payments is not determinable. Although the Corporation has not specifically segregated funds for this obligation, it possesses sufficient capital resources to meet its severance and other benefit payment obligations as they become due.

FISCAL 2003–2004 COMPARED TO PLAN

	ACTUAL	PLAN	VARIANCE	
(in $ thousands)			$	%
Revenue				
Services	$29,417	$25,583	$3,834	15%
Interest	126	107	19	18%
	29,543	**25,690**	**3,853**	**15%**
Expenses				
Salaries and employee benefits	24,009	20,526	3,483	17%
Operating and administrative	4,428	4,117	311	8%
Amortization of capital assets	830	677	153	23%
	29,267	**25,320**	**3,947**	**16%**
Net income	**$276**	**$370**	**$(94)**	**-25%**
Capital expenditures	**$1,392**	**$1,450 (1)**	**$(58)**	**-4%**

(1) The 2003–04 to 2007–08 Corporate Plan Summary was tabled in the House of Commons in the summer of 2003. In November 2003, the Corporation submitted for approval an amended capital budget plan for 2003–04, which was approved by the Treasury Board on November 18, 2003. Details of the amendment are as follows:

(in $ thousands)

	INITIAL PLAN	AMENDED PLAN
Capital expenditure budget	$500	$1,450

Services revenue was $3,834,000, or approximately 15%, higher than Plan. This variance is primarily attributable to higher than expected business volumes.

Interest revenue, which is generated from the Corporation's average current account bank balance, was $19,000, or 18%, higher than Plan. This variance was due to higher than expected average cash balances throughout the fiscal year.

Salaries and employee benefits were $3,483,000, or 17%, higher than Plan. This increase is largely the result of the higher business volumes discussed above, which in turn resulted in higher than expected staff growth. A part of the increase was also attributable to higher than Plan average salary increases than foreseen in the Plan.

Operating and administrative expenses were $311,000, or 8%, higher than Plan. This variance is due to several factors, including higher spending on rent due to the head office relocation to a larger space, and spending on staff relocations, professional information technology services and sundry expenses related to the head office move.

Amortization of capital assets was $153,000, or 23%, higher than Plan. This variance is the direct result of the higher level of capital expenditures compared to the original Plan, as explained below. Capital expenditures were $58,000, or 4%, lower than the amended Plan. In its initial Plan, the Corporation estimated capital expenditures of $500,000.

Given the larger than expected business growth and the necessity for the head office to relocate to larger office space, the Corporation submitted in November 2003 an amended capital expenditure plan for approval. The additional capital expenditures included in the amended plan related primarily to the fit-up costs for the new head office space and additional office furniture, computer equipment and software related to accommodating the larger than expected growth in staff.

FIVE-YEAR SUMMARY FINANCIAL INFORMATION

(in $ thousands)

	2003–2004	2002–2003	2001–2002	2000–2001	1999–2000
Revenue					
Services	$29,417	$24,422	$20,052	$19,410	$17,362
Interest	126	113	102	171	288
	29,543	24,535	20,154	19,581	17,650
Expenses					
Salaries and employee benefits	24,009	19,274	16,642	16,346	13,369
Operating and administrative	4,428	3,476	3,004	3,256	2,819
Amortization of capital assets	830	1,262	436	525	540
	29,267	24,012	20,082	20,127	16,728
Income (loss) before rebate	**276**	**523**	**72**	**(546)**	**922**
Rebate	–	–	–	**(639)**	–
Net income (loss)	**276**	**523**	**72**	**(1,185)**	**922**
Surplus, beginning of year	**2,598**	**2,075**	**2,003**	**3,188**	**2,266**
Surplus, end of year	**$2,874**	**$2,598**	**$2,075**	**$2,003**	**$3,188**
Assets					
Cash and short-term investments	$4,307	$4,232	$2,259	$3,741	$4,004
Accounts receivable, related parties, prepaids and advances	5,306	4,570	3,908	2,830	3,491
Capital assets	1,444	889	1,247	1,098	817
	$11,057	$9,691	$7,414	$7,669	$8,312
Liabilities					
Accounts payable, related parties and accrued liabilities	$3,655	$3,294	$1,957	$2,601	$3,085
Provision for employee benefits	4,528	3,799	3,382	3,065	2,039
	8,183	7,093	5,339	5,666	5,124
Capital stock and surplus					
Common shares	–	–	–	–	–
Surplus	2,874	2,598	2,075	2,003	3,188
	2,874	2,598	2,075	2,003	3,188
	$11,057	$9,691	$7,414	$7,669	$8,312
Cash flows from (used in)					
Operating activities	$1,467	$2,877	$(895)	$586	$1,587
Acquisition of capital assets	(1,392)	(904)	(587)	(849)	(553)
Increase (decrease)	75	1,973	(1,482)	(263)	1,034
Cash, beginning of year	4,232	2,259	3,741	4,004	2,970
Cash, end of year	$4,307	$4,232	$2,259	$3,741	$4,004

Future Outlook

FINANCIAL OUTLOOK — CONTINUED GROWTH

	2004–2005 PLAN	2003–2004 ACTUAL	VARIANCE	
(in $ thousands)			$	%
Revenue				
Services	$30,761	$29,417	$1,344	5%
Interest	118	126	(8)	-6%
	30,879	**29,543**	**1,336**	**5%**
Expenses				
Salaries and employee benefits	25,463	24,009	1,454	6%
Operating and administrative	4,342	4,428	(86)	-2%
Amortization of capital assets	873	830	43	5%
	30,678	**29,267**	**1,411**	**5%**
Net income	**$201**	**$276**	**$(75)**	**-27%**
Capital expenditures	**$996**	**$1,392**	**$(396)**	**-28%**

The Corporation has experienced 47% compound growth in revenues over the past three years, and the total number of employees has increased by 30% over the same period. As indicated in its Corporate Plan, the Corporation expects revenue to continue to grow in the 2004–05 fiscal year by a further 5% over fiscal 2003–04. A similar increase of 5% in total staff is also planned during the next fiscal year.

GLANCE FORWARD

The demand for DCC's core business expertise continues to grow, both in the construction contract management field and in the many related service lines developed over the past decade. The potential for growth is particularly strong in the fields of project management support and environmental remediation of contaminated sites. DCC is managing corporate growth carefully to maintain service quality and to ensure that DCC makes significant investments only in sustainable business lines of strategic importance to National Defence. The short- to medium-term outlook is positive.

In today's complex defence and security environment, DCC has more frequent opportunities to support the increasingly diverse needs of defence agencies. At the same time, responding quickly to new requirements with new risk profiles is a constant challenge for management and staff. The Corporation looks forward to meeting this challenge to the full extent of its expertise, resources and mandate. For example, since Foreign Affairs Canada plays an integral role in managing Canada's defence interests in Afghanistan, DCC will leverage its presence there with the NATO Stabilization Force to provide contracting and contract management services to the department as it establishes a temporary embassy in Kabul.

DCC is launching several important corporate initiatives in 2004–05. First, it will evaluate the management structure to determine whether the current geographic regional structure or a functional matrix organization would best enhance service quality and client satisfaction while maintaining the effective control systems that have served DCC well for half a century. In 2005–06, management will draw conclusions from this evaluation and plan for any required changes.

Second, DCC will review its professional development and training framework. This review has two objectives: to ensure a strategic, holistic approach to training and development that responds to the Corporation's long-term needs for skills, taking into account individual career planning and corporate succession planning considerations; and to maximize the return on DCC's very significant annual investment in education. Once again, DCC will study the conclusions of this review and, in future fiscal years, will implement any decisions arising from the review.

DCC will continue to rely on its close relationship with the CF and DND at all levels to establish its business plans and to manage its resources in support of Canada's defence needs. Management and staff remain dedicated to fulfilling the Corporation's mandate and carrying out its mission.

2003–2004 FINANCIAL STATEMENTS

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MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls, P.Eng.
President and Chief Executive Officer

Angelo Ottoni, CA
Chief Financial Officer

May 7, 2004

AUDITOR'S REPORT

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2004, and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

Alain Boucher, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
May 7, 2004

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

BALANCE SHEET

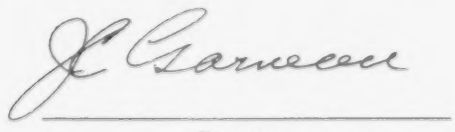
as at March 31, 2004 (in thousands of dollars)

	2004	2003
ASSETS		
Current		
Cash	$ 4,307	$ 4,232
Due from related parties (note 5)	4,961	4,227
Prepaids, advances and accounts receivable	345	343
	9,613	8,802
Capital assets (note 3)	1,444	889
	$ 11,057	$ 9,691
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 3,329	$ 3,105
Due to related parties (note 5)	326	189
Current portion — provision for employee future benefits (note 4)	609	267
	4,264	3,561
Provision for employee future benefits (note 4)	3,919	3,532
	8,183	7,093
CAPITAL STOCK AND SURPLUS		
Capital stock		
Authorized — 1,000 common shares of no par value Issued — 32 common shares	–	–
Surplus	2,874	2,598
	2,874	2,598
	$ 11,057	$ 9,691

Contingencies (note 8)

The accompanying notes are an integral part of these statements.

Approved by the Board:



Director
Jean-Claude Garneau

Director
John D. McLure

STATEMENT OF OPERATIONS

for the year ended March 31 (in thousands of dollars)

	2004	2003
REVENUE		
Services (note 5)	$ 29,417	$ 24,422
Interest	126	113
	29,543	24,535
EXPENSES		
Salaries and employee benefits	24,009	19,274
Operating and administrative	4,428	3,476
Amortization of capital assets (note 3)	830	1,262
	29,267	24,012
NET INCOME	$ 276	$ 523

STATEMENT OF SURPLUS

for the year ended March 31 (in thousands of dollars)

	2004	2003
Surplus at beginning of year	$ 2,598	$ 2,075
Net income	276	523
Surplus at end of year	$ 2,874	$ 2,598

The accompanying notes are an integral part of these statements.

STATEMENT OF CASH FLOWS

for the year ended March 31 (in thousands of dollars)

	2004	2003
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	$ 276	$ 523
Items not requiring cash		
Provision for employee future benefits	840	556
Amortization of capital assets	830	1,262
Loss on disposal of capital assets	7	–
Net increase (decrease) in non-cash working capital balances related to operations	(375)	676
	1,578	3,017
Employee severance and other benefits paid	(111)	(140)
	1,467	2,877
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of capital assets	(1,392)	(904)
Increase in cash during the year	75	1,973
Cash at beginning of the year	4,232	2,259
Cash at end of the year	$ 4,307	$ 4,232

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not only, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies that play a role in Canada's defence may also avail themselves of these services.

Until 1997, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997, revenue is generated from fees charged for specific services provided.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Capital assets

Capital assets comprise leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis, as follows:

Equipment:	5 years
Computers:	3 years
Leasehold improvements:	Initial lease term

In the year of acquisition, a full-year amortization is recorded.

Employee future benefits

- Non-pension benefits

  Employees are entitled to specific severance and other non-pension benefits as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees.

- Pension benefits

  Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the Plan are currently based on a multiple of the employees' required contributions and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Revenue

Revenue is recognized in the year the service is performed.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

3. CAPITAL ASSETS

	2004			2003
	(in thousands of dollars)			
	Cost	**Accumulated amortization**	**Net**	**Net**
Equipment	$1,092	$ 868	$ 224	$247
Computers	6,479	5,918	561	556
Leasehold Improvements	732	73	659	86
	$8,303	**$6,859**	**$1,444**	**$889**

4. PROVISION FOR EMPLOYEE FUTURE BENEFITS

- Non-pension benefits

	2004	2003
	(in thousands of dollars)	
Accrued severance and other benefits	$4,528	$3,799
Less: current portion	609	267
	$3,919	**$3,532**

The Corporation provides severance and other non-pension benefits to most of its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	2004	2003
	(in thousands of dollars)	
Projected benefit obligation	$5,766	$4,450
Accrued benefit liability recognized in the balance sheet	4,528	3,799
Current year's expense	840	556
Benefits paid during the year	111	140

The significant actuarial assumptions adopted in measuring the Corporation's severance and other non-pension benefits are as follows:

	2004	2003
Discount rate for projected benefits obligation	5.75%	6.50%
Average rate of general salary increases	3.18%	3.16%
Inflation rate	2.68%	2.66%
Average rate of extended health care cost increases	4.68%	4.66%
Year for which mortality rates are based on group annuity mortality	1994	1994
Retirement age	59	59

Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at varying rates averaging 2.29 (2003 – 2.27) times the employees' contributions. The current year's contributions by the Corporation to the Plan were $1,973,040 (2003 – $1,571,447).

5. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all departments, agencies and Crown corporations created by the Government of Canada. The Corporation enters into transactions with these entities in the normal course of business. The Corporation's services revenue is generated from services provided to the Department of National Defence. The Department of National Defence provides office space free of charge for some employees of the Corporation. Amounts due from and to related parties at the end of the year are as follows:

	2004	2003
Due from:	*(in thousands of dollars)*	
National Defence	$4,823	$3,545
Public Works and Government Services Canada	44	682
Foreign Affairs Canada	90	–
Natural Resources Canada	4	–
	$4,961	**$4,227**
Due to:		
National Defence	$121	$78
Public Works and Government Services Canada	187	38
Justice Canada	18	73
	$326	**$189**

6. LEASE COMMITMENTS

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are as follows:

YEAR ENDING MARCH 31	
(in thousands of dollars)	
2005	$1,001
2006	956
2007	907
2008	845
2009	839
	$4,548

7. FINANCIAL INSTRUMENTS

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

8. CONTINGENCIES

Letters of credit aggregating $200,000 (2003 — $200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling $3,429,000 (2003 — $6,971,000) and in respect of employment matters totalling $75,000 (2003 — $75,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to potential legal claims.